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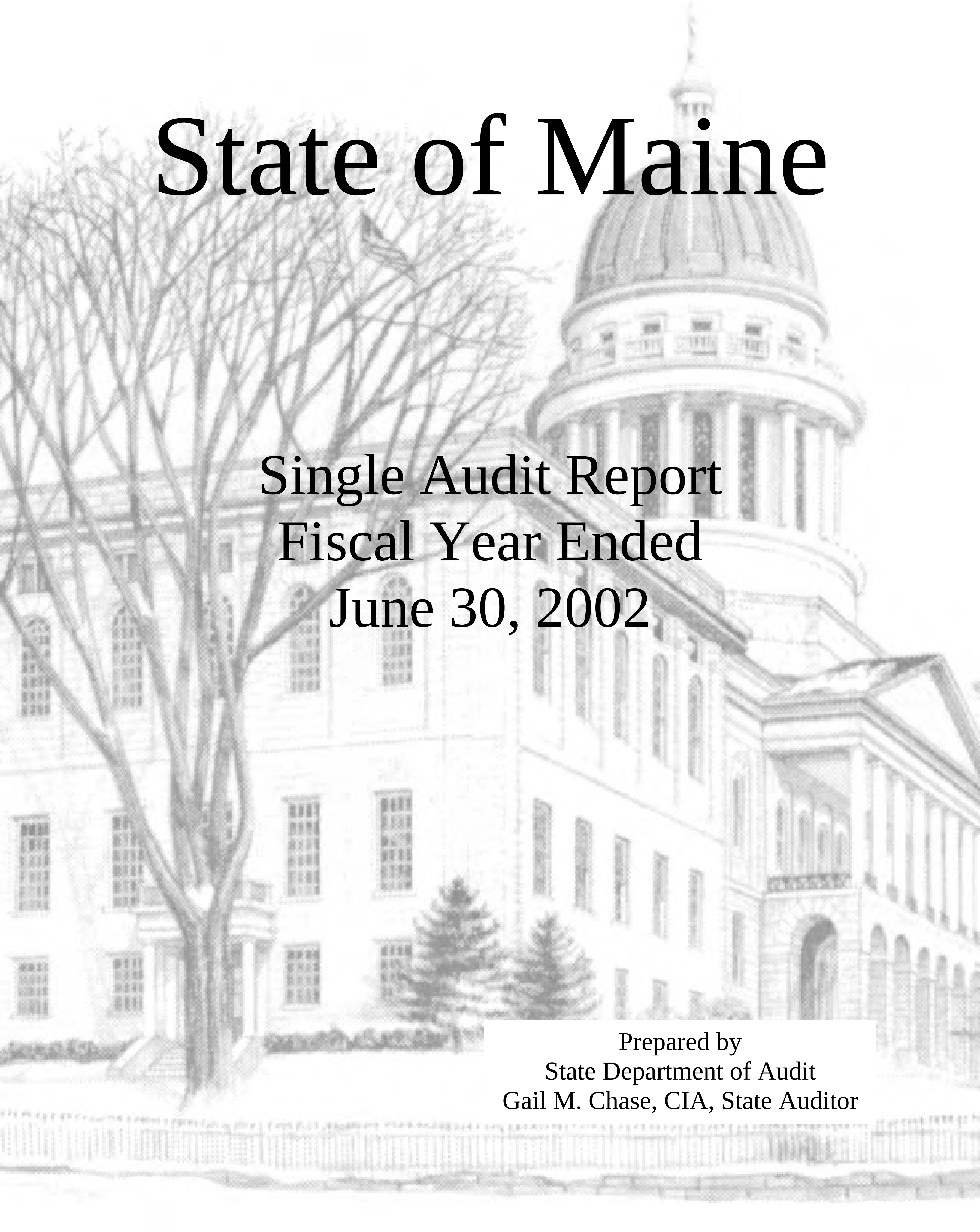
Single Audit Report Fiscal Year Ended June 30, 2002

Maine State Auditor's Office



State of Maine

Single Audit Report
Fiscal Year Ended
June 30, 2002

Prepared by
State Department of Audit
Gail M. Chase, CIA, State Auditor

Printed under appropriation 010 27A 1001 012

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2002

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STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Letter of Transmittal

Senator Beverly C. Daggett
President of the Senate

Representative Patrick Colwell
Speaker of the House of Representatives

The Honorable John E. Baldacci
Governor of Maine

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2002. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of over $1.9 billion in federal funds. The audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This document contains the following reports and schedules:

- Independent Auditor's Report

- Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

- Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

- Schedule of Expenditures of Federal Awards

- Schedule of Findings and Questioned Costs

- Corrective Action Plan

- Summary Schedule of Prior Audit Findings

On behalf of the Department of Audit, I would like to express my gratitude to employees throughout State government who have assisted us during the conduct of our audit and in the issuance of this report. We continue our mutual effort to improve financial reporting and accountability to the citizens of our State.

We would be pleased to respond to any questions or comments about the 2002 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA
State Auditor

June 30, 2003

EXECUTIVE SUMMARY

Introduction

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. More important to many, though, is that the audit addresses the accountability of our government for the dollars provided by its citizens. This document, the 2002 Single Audit Report, is the written summary of the audit, and provides the information that the federal government, rate-setting agencies and State policymakers need, and that the citizens deserve.

Scope and Results

The Opinion

Our audit opinion is rendered on the Basic Financial Statements as presented by the management of the State of Maine. For the first time since the State has been audited in accordance with the Single Audit Act, we have given the financial statements an unqualified opinion. This means that we are able to give assurance that the financial statements fairly present the financial position of the State of Maine government, and the financial results of its operations. It also means that the State has taken corrective action to record information regarding capital assets and leases on its financial statements that had not been available in prior years. The opinion, contained in the Independent Auditor's Report, is found on page B-3 of this report. The unqualified opinion is especially noteworthy as this was also the year that the external reporting staff of the Bureau of Accounts and Control was required to implement Government Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. That Statement significantly revised the financial information that a government is required to report and how it must report it. Implementation of the standard, and our audit of it, required considerable effort.

Internal Control and Compliance

We report on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the financial statements. That report, titled *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, is found on page C-1. We found no significant instances of noncompliance. We did find instances of control weaknesses that we consider being reportable conditions. Three of these reportable conditions rise to the level of material weaknesses. These findings are described briefly below, and can be found in detail in section E of the Single Audit Report, beginning on page E-7.

We also issue an opinion on the compliance of each major federal program with that program's requirements, and on the internal control over that compliance. We audited 27 major federal programs totaling $1.8 billion. We found that the two Title IV-E programs, Adoption Assistance

and Foster Care, are in material noncompliance with the eligibility requirements of those programs. We found 27 other instances of noncompliance that are significant, but not material to a specific program. These findings are identified in the report titled, *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, found on page C-3 of the Single Audit Report. That report also addresses the State of Maine's responsibility to establish and maintain effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. Of the 63 findings regarding internal control, we consider four of these to be material weaknesses in internal control. These are briefly described below, and can be found in detail in section E of the Single Audit Report, beginning on page E-47.

Summary of findings

As stated above, the State of Maine has corrected the deficiencies that resulted in a qualification of the audit opinion for the previous fiscal year. Various departments and agencies have improved their systems of accountability, and most managers and employees perform their duties well. Our responsibility, however, is to report those instances when performance has fallen short of compliance with law or regulation, or when the systems that are designed to ensure compliance are absent or ineffective. The findings reflect those instances.

Financial statement findings

In general, we found that the State of Maine's systems adequately support the processing of transactions in accordance with the budgetary basis of accounting, but do not facilitate preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The conditions that we cite are primarily GAAP financial reporting deficiencies rather than violations of law, or misuse of resources. A more detailed summary of these findings is found on page E-9.

We found deficiencies in the State's systems of control over the recording of capital assets, capital leases, loans receivable and accounts receivable as well as the presentation of information regarding the State's component units. Several Departments do not have sufficient controls to report, identify, account for or collect all amounts that are due to the State. We found that the State's system of accounting for federal funds in one Department is so complex that it was not possible to document the use of cash in at least one major program. We also found that another Department does not have adequate control over the cash seized from citizens who are charged with a crime.

Finally, we found that one employee improperly processed payments in order to prevent $323,000 in General Fund money from lapsing.

Federal findings

We found deficiencies in the areas of cash management, federal financial reporting, expenditure of funds in compliance with program regulations, monitoring of subrecipients, reconciliation of

systems, and segregation of duties. A more detailed summary of these findings can be found at the beginning of each Department's findings.

Federal regulations restrict the timing and amount of cash drawn for use on behalf of federal programs. We found that the State did not always minimize the amount of federal cash on hand, and did not always ensure that subrecipients minimized cash on hand. Conversely, some Departments had negative cash balances in federal accounts, necessitating the use of resources from other federal accounts, the General Fund or the Other Special Revenue Fund in order to make payments. Draws of federal cash were not always related to need, and could not always be traced to ultimate use.

Financial reports to the federal government were not always correct and not always submitted on time. Certain expenditures were reported incorrectly or were reported as both direct costs and indirect costs.

We found that costs that were incurred on behalf of federal grants were not always allowed: duplicate payments were made, and payments were made from the wrong federal program. Payments were made to ineligible providers, or were made to eligible providers on behalf of ineligible recipients. Documentation of some costs could not be found. We questioned a total of $32.5 million as a result of our audit. Questioned costs are those amounts of federal financial assistance that we believe were not spent in compliance with program requirements, or that were insufficiently documented for us to determine compliance. The federal government may, or may not, disallow those costs and require reimbursement from the State.

The State did not always monitor subrecipients of federal grant dollars, or did not provide them with required information.

We found that data in some systems used to account for federal programs were inaccurate. We also found that one internal system that is used for grants management was not reconciled to the State Controller's accounting records.

Finally, we found that segregation of duties in one federal program is extremely weak: the same individuals determine eligibility, establish individualized plans, authorize expenditures and approve payments, generally without supervision.

Conclusion

Our audit resulted in an unqualified opinion for the first time since the State of Maine has received a Single Audit. We identified serious weaknesses in internal control, as well as instances of noncompliance. However, we recognize that the financial managers of the State have initiated action that should resolve many of these issues.

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FINANCIAL STATEMENTS


DIRIGO
MAINE

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities, Maine Maritime Authority, Maine Municipal Bond Bank, Maine State Housing Authority, Maine State Retirement System, Maine Technical College System, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government-Governmental Activities	6%	1%
Component Units	100%	100%

Fund Financial Statements:	Percent of Assets	Percent of Revenues or Additions
Proprietary Funds-Governmental Activities-Internal Service Funds	55%	4%
Fiduciary Funds-Pension (and Other Employee Benefit) Trust Funds	100%	100%
Component Units	100%	100%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The financial statements of the Maine Educational Loan Authority and the Maine Governmental Facilities Authority were audited in accordance with auditing standards generally accepted in the United States but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2002, and the respective changes in financial position and cash flows thereof, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the basic financial statements, the State of Maine adopted Governmental Accounting Standard Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities:Omnibus,* Statement No. 38, *Certain Financial Statement Note Disclosures,* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.* This results in a change in the format and content of the basic financial statements.

Management's Discussion and Analysis, budgetary comparison schedules and related notes, information about infrastructure assets reported using the modified approach, and information on the schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2003 on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the basic financial statements of the State of Maine. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Gail M. Chase, CIA
State Auditor

April 30, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2002. Please read it in conjunction with the financial statements, which immediately follow this section.

The State of Maine implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* in fiscal year 2002. This Statement required certain prior year financial statement data to be restated. The format of basic financial statements has also been changed to meet the requirements of this Statement. Few comparisons are available between the current and prior year due to these changes. In future years, additional comparisons will be included in this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by less than one percent from the previous fiscal year. Net assets of governmental activities decreased by $35 million, while net assets of business-type activities increased by $44.3 million. The State's assets exceeded its liabilities by $3.2 billion at the close of fiscal year 2002. Component units reported net assets of $1.3 billion, an increase of $31 million (less than one percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $509 million, a decrease of $407.4 million from the previous year. The General Fund's portion of total fund balance was $20.3 million, a decrease of $299.4 million from the previous year.

- The proprietary funds reported net assets at year end of $595.8 million, an increase of $60.1 million. The largest portion of the increase, $57.9 million, is due to the Unemployment Compensation fund, which is reported as an enterprise fund under GASB Statement No. 34 beginning in fiscal year 2002.

Long-term Debt:

- The State's liability for general obligation bonds decreased by $60 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $27.6 million in bonds and made principal payments of $87.6 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 10.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the State:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the State's *overall* financial status.

  1. The Statement of Net Assets reports the State's assets, liabilities, and net assets.

  2. The Statement of Activities reports the State's revenue, expenses, and other changes in net assets.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the State, reporting the operations in *more detail* than the government-wide statements.

  1. The *governmental fund statements* tell how *general government* services such as public protection, human services, education and culture, and transportation were financed in the *short term* as well as what remains for future spending.

  2. The *proprietary fund statements* offer *short-* and *long-term* financial information about the activities that the State operates *like businesses*, such as its Employment Security Fund.

  3. The *fiduciary fund* statements provide information about the financial relationships in which the State acts solely as a *trustee* or *agent* for the benefit of others, including the employees of the State. Examples of this fund type are the Abandoned Property Fund, the Permanent School Fund, and the Payroll Withholding Fund.

The financial statements also include *notes* that provide additional information about the financial statements and the balances reported. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the *State*'s budget to its actual results of operations for the year.

Table A-1 shows how the various parts of this annual report are arranged and how they are related to one another.

Table A-1: Organization of the State's Annual Financial Report

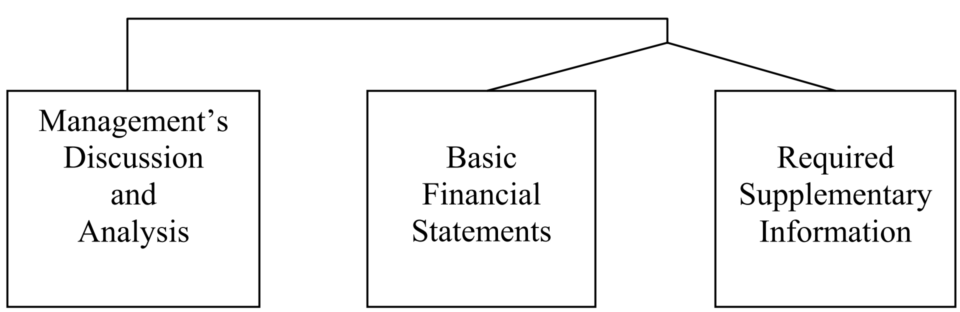


Table A-2 summarizes the major features of the State's financial statements, including the portion of the State's activities that they cover and the types of information that they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Table A-2: Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity and component units (except fiduciary funds)	The day-to-day operating activities of the State, such as • public protection • human services • education and culture • transportation • general government	The activities of the State, such as • employment security	Instances in which the State administers resources on behalf of others, such as certain trusts and agency funds
Required financial statements	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Net Assets • Statement of Revenues, Expenses, and Changes in Net Assets • Statement of Cash Flows	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow and outflow information	All revenues and expenses during the year; regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year; regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the State's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the State's *net assets* and how they have changed. Net assets, the difference between the assets and liabilities, is one way to measure the financial health or position of the State.

- Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating, respectively.

- For assessment of the overall health of the State, additional non-financial factors such as changes in the State's property tax base and the condition of roads, buildings, and other facilities should be considered.

The government-wide financial statements are divided into three categories:

- *Governmental activities*-Most basic services, such as public protection, human services, education and culture, transportation, and general government, are included in this category. Income taxes, sales and use taxes, and state and federal grants finance most of these activities.

- *Business-type activities*-Fees are charged to customers to help cover the costs of certain services, such as employment security.

- *Component units*-Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" the Maine Governmental Facilities Authority (MGFA) as a governmental activity as described above. Other component units have been discretely presented and include the following organizations: the Maine Health and Higher Educational Facilities Authority (MHHEFA), the Northern New England Passenger Rail Authority (NNEPRA), The Child Development Services System (CDS), the Finance Authority of Maine (FAME), the Maine Municipal Bond Bank (MMBB), the Maine Educational Loan Authority (MELA), the Maine State Housing Authority (MSHA), the Maine State Retirement System (MSRS), the Maine Maritime Academy (MMA), the Maine Technical College System (MTCS), and the University of Maine System (UMS). See Note 1 to the financial statements for information on how to obtain component unit financial reports.

Net assets of the governmental activities differ from the governmental fund balances because governmental fund level statements only report transactions using or providing current financial resources. Also, capital assets are reported as expenditures when financial resources (money) are expended to purchase or build said assets. Likewise, the financial resources that may have been borrowed are considered revenue when they are received. The principal and interest payments are both considered expenditures when paid. Depreciation is not calculated if it does not provide or

reduce current financial resources. Finally, capital assets and long-term debt are not accounted for in the governmental fund financial statements and do not affect the fund balances.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

    Net Assets invested in capital assets, net of related debt;

    Restricted net assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

    Unrestricted net assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds-not the State as a whole. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

• *Governmental funds:* Most of the basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the general fund, special revenue funds, capital project funds, and permanent funds. Required statements are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

• *Proprietary funds:* The proprietary funds generally report services for which customers are charged a fee. Like government-wide statements, proprietary funds provide both long- and short-term financial information. Enterprise funds (one type of proprietary fund) are the same as business-type activities, but provide more detail and additional information, such as cash flows. An example is the State Lottery Fund. Internal service funds (the other type of proprietary fund) report activities that provide services to its other programs and activities – such as the State's Postal, Printing & Supply Fund. Required statements are the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

• *Fiduciary funds:* The State is the trustee or *fiduciary* for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The State excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations. These funds include pension and other employee benefit trusts administered by the Maine State Retirement System, a discrete component unit. Fiduciary fund reporting focuses on net assets and changes in net assets. These reports are developed using the economic resources measurement focus and the accrual basis of accounting. Required statements are the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by less than one percent to $3.2 billion at June 30, 2002, as detailed in Tables A-3 and A-4.

Table A- 3: Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other noncurrent assets	$ 1,359,027	$ 486,129	$ 1,845,156
Capital assets	2,727,184	58,941	2,786,125
Total Assets	4,086,211	545,070	4,631,281
Current liabilities	706,809	19,259	726,068
Long-term liabilities	705,590	472	709,062
Total Liabilities	1,412,399	19,731	1,432,130
Net assets:			
Investment in capital assets, net of related debt	2,424,949	53,679	2,478,628
Restricted	242,976	464,862	707,838
Unrestricted	5,887	6,798	12,685
Total Net Assets	$ 2,673,812	$ 525,339	$ 3,199,151

Changes in Net Assets

The State's fiscal year 2002 revenues totaled $5.2 billion. (See Table A-4) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 46.9 percent and 32.8 percent, respectively, of every dollar raised. (See Table A-5) The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $5.2 billion for the year 2002. These expenses (71.4 percent) are predominantly related to education and culture and human services activities. (See Table A-6) The State's general government activities accounted for 8.4 percent of total costs. Total net assets increased by $9.3 million.

Table A-4: Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
Program Revenues:			
Charges for Services	$ 301,595	$ 391,506	$ 693,101
Grants/Contributions	1,818,541	36,369	1,854,910
General Revenues:			
Corporate Income Taxes	158,493	-	158,493
Individual Income Taxes	1,043,312	-	1,043,312
Fuel Taxes	149,193	-	149,193
Property Taxes	35,546	-	35,546
Sales & Use Taxes	976,618	-	976,618
Other Taxes	63,111	-	63,111
Investment Earnings	8,944	-	8,944
Other	263,742	1,093	264,835
Total Revenues	4,819,095	428,968	5,248,063
Expenses			
Governmental Activities:			
General Government	432,206	-	432,206
Economic Development	131,285	-	131,285
Education and Culture	1,323,259	-	1,323,259
Human Services	2,367,786	-	2,367,786
Labor	92,544	-	92,544
Natural Resources	132,858	-	132,858
Public Protection	108,742	-	108,742
Transportation	240,869	-	240,869
Interest	24,576	-	24,576
Business-Type Activities:			
Employment Security	-	123,606	123,606
Other	-	261,042	261,042
Total Expenses	4,854,125	384,648	5,238,773
Increase (Decrease) in Net Assets	$ (35,030)	$ 44,320	$ 9,290

In tables A-4, A-5 and A-6, $69.6 million of statutorily required profit transfers are included as other expenses in the business-type activities and other revenues in the governmental activities.

Table A-5: Total Primary Government Sources of Revenues for Fiscal Year 2002

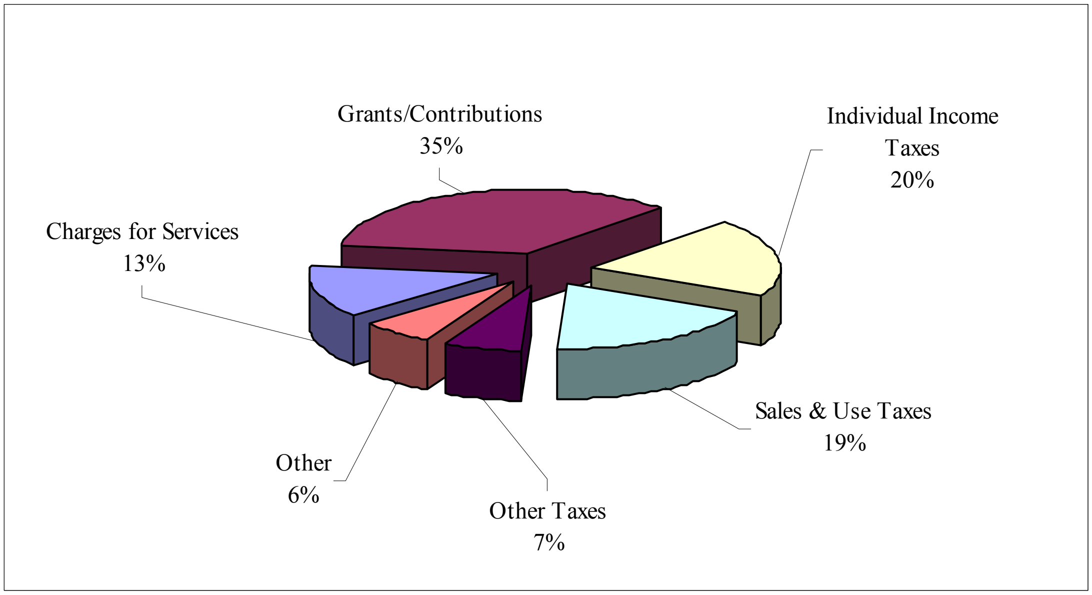
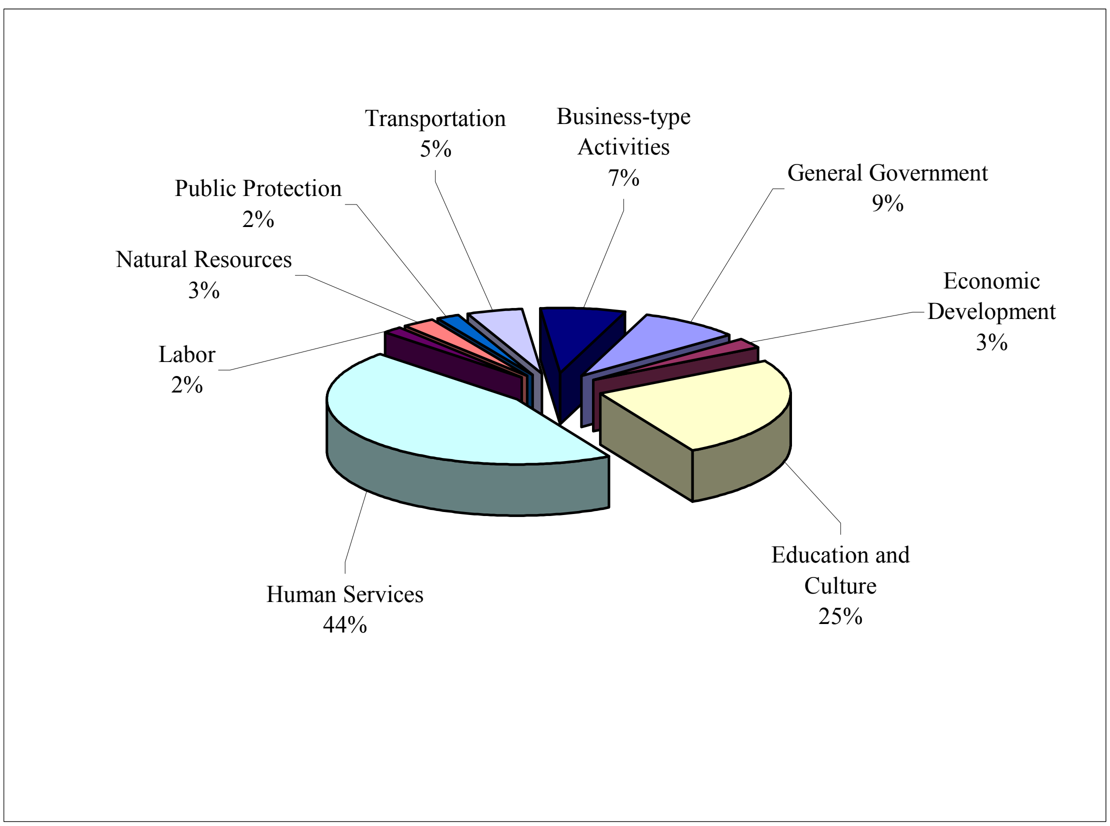


Table A-6: Total Primary Government Expenses for Fiscal Year 2002



Governmental Activities

Revenues for the State's governmental activities totaled $4.82 billion while total expenses equaled $4.85 billion. Therefore, the decrease in net assets for governmental activities was $35 million in 2002.

Table A-7 presents the cost of major State governmental activities: general government, economic development, education and culture, human services, labor, natural resources, public protection, transportation, and interest expense. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-7: Net Cost of Governmental Activities
(Expressed in Thousands)

Category	Total Cost	Net Cost (Revenue)
General Government	$ 432,206	$ 355,051
Economic Development	131,285	54,935
Education and Culture	1,323,259	1,191,821
Human Services	2,367,786	996,618
Labor	92,544	16,157
Natural Resources	132,858	54,444
Public Protection	108,742	55,005
Transportation	240,869	(14,618)
Interest	24,576	24,576
Total	$ 4,854,125	$ 2,733,989

- The cost of all governmental activities this year was $4.9 billion.
- The users of the State's programs financed $301.6 million of the cost.
- The federal and State governments subsidized certain programs with grants and contributions of $1.9 billion.
- $2.7 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Business-type Activities

Revenues for the State's business-type activities totaled $428.9 million while total expenses equaled $384.6 million. Therefore, the increase in net assets for business-type activities was $44.3 million in 2002.

Table A-8 presents the cost of major State business-type activities: employment security and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-8: Net Cost of Business-Type Activities
(Expressed in Thousands)

Category	Total Cost	Net Cost (Revenue)
Employment Security	$ 123,606	$ (57,012)
Alcoholic Beverages	56,896	(24,724)
Lottery	120,520	(38,613)
Other	13,990	7,486
Total	$ 315,012	$ (112,863)

- The cost of all business-type activities this year was $315 million.
- The users of the State's programs financed all of the cost.
- The State's net revenue from business-type activities was $112.8 million. $69.6 million was transferred to the State’s governmental activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of $509.4 million in its governmental funds. The Other Special Revenue Fund, at $265.9 million, comprises just over one-half of the total, while the General Fund, at $20.3 million, the Highway Fund, at $80.8 million, and the Federal Fund, at $20.8 million comprise about one-quarter of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, also comprise about one-quarter of the total. Total fund balances in the governmental funds diminished by $407.3 million. Almost three-quarters of that decrease occurred in the General Fund, the State's chief operating fund, primarily because of lower tax collections as a result of an economic downturn consistent with the national economic condition.

Budgetary Highlights

Over the course of the fiscal year, the State made significant amendments to the current services budget through legislative action to provide a vehicle to deal with additional needs, changes in expenditure patterns, and changes in revenue expectations. The amendments fell into two major categories:

- The first category amended the current services budget to provide legislative authority to expand existing programs as well as approve new initiatives undertaken by State departments and agencies;
- The second category was an emergency budget adopted by the legislature to account for necessary adjustments to agency budgets and to ensure that State departments and agencies expended funds within adjusted appropriations and allocations.

In April 2002, revenues began to soften as a result of the slowdown of the national economy. When it became apparent that revenues would fall short of requirements to support the level of appropriations and allocations, the Governor issued Executive Order #5 FY01/02, Budget and Expenditure Freeze Order, on May 9, 2002 which limited spending and hiring to emergency needs for the remainder of Fiscal Year 2002. As revenues continued to decline, the Governor issued Executive Order #6 FY01/02 on June 6, 2002 to curtail allotments by approximately $7.2 million. Overall, budget amendments resulted in a $67 million reduction of General Fund revenues from the original to the final budget. General Fund revenues fell $102.5 million short of the revised projections. Consequently, the State of Maine transferred available balances from several other funds to the unappropriated surplus of the General Fund to provided resources to balance the budget. Significant transfers during the fiscal year included: $94.1 million from the Rainy Day Fund, $10 million from the Fund for a Healthy Maine, and $20 million from the Maine Learning Technology Endowment.

During Fiscal Year 2003, the State of Maine, as a component of the legislatively authorized budget, transferred available balances from several other funds to the unappropriated surplus of the General Fund. These transfers provided resources to balance the budget. Significant transfers during the fiscal year included: $38.5 million from the Rainy Day Fund, $43.2 million from the Fund for a Healthy Maine, and $14.6 million from the Maine Learning Technology Endowment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2002, the State had $3 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2002, the State acquired or constructed more than $470 million of capital assets of land, infrastructure, improvements, buildings, equipment, vehicles, and intangibles. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of road and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-9: Capital Assets
(Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total
Land	$ 277,900	$ 6,403	$ 284,303
Buildings	392,803	16,378	409,181
Equipment	204,608	19,410	224,018
Improvements other than buildings	16,936	44,763	61,699
Infrastructure	2,027,179	-	2,027,179
Construction in Progress	27,267	1,593	28,860
Total Capital Assets	2,946,693	88,547	3,035,240
Accumulated Depreciation	(219,509)	(29,606)	(249,115)
Capital Assets, net	$ 2,727,184	$ 58,941	$ 2,786,125

Modified Approach for Infrastructure

The State has adopted the modified approach for reporting its highways and bridges. Following this approach, the State does not depreciate infrastructure assets as long as the State uses an asset management system that includes an up-to-date inventory of infrastructure assets, condition assessments that use a measurement scale, and estimates of the annual amount to preserve and maintain the infrastructure at the condition level established by the State. The State must also document that the infrastructure assets are being preserved at or above the condition level established. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,698 highway miles and 17,664 lane miles within the State. Bridges have a deck area of 11 million square feet among 2,960 total bridges.

The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2002, the actual average condition was 76.6. Its policy for bridges is an average

sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2002.

Preservation costs for fiscal year 2002 totaled $41.3 million compared to estimated preservation costs of $41.1 million.

Subsequent to the close of fiscal year 2002, Chapter 38, P&S 2001, which authorized $61 million of transportation bonds for improvements to highways and bridges, was approved at referendum.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

At year-end, the State had $709.8 million in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-10: Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities	**Business-type Activities**	**Total**
General Obligation Bonds	$ 346,495	$ -	$ 346,495
Other Long-Term Obligations	362,799	526	363,325
Total	$ 709,294	$ 526	$ 709,820

During the year, the State reduced outstanding long-term obligations of $87.6 million for outstanding general obligation bonds and $14.5 million for other long-term debt. Also during fiscal year 2002, the State incurred $82.3 million of additional long-term obligations.

Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal year 2002, Moody's Investor Service rated the State at Aa2, Standard & Poor's rated it at AA+, and Fitch IBCA, Inc. rated it at AA+.

FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS

The economic forecast for the State of Maine is trending toward little or no growth for the first half of 2003. As a result, the projections for employment and income growth are trending downward for 2003. We expect that job growth will decline from the 1.0% estimated growth level to approximately a growth level of .4%. Most significantly, personal income growth has been revised downward by 0.8% from its original estimate for 2002 and by an additional 0.5% for 2003.

The sluggish national economy has impacted Maine's estimated revenues available for appropriation by the legislature. The State has revised its revenue estimates downward several times during the year causing the enactment of three budget amendments to reduce appropriations and allocations, to meet emergency needs in the Department of Corrections, and to make changes in statute to implement revisions to services provided to the public. Revised revenue estimates for the General Fund for 2002 - 2003 are only expected to increase by 2.2%; however, through the month of April our preliminary estimates demonstrate growth amounting to only 1.9%. The major contributors to the sluggish growth rate of revenues include little growth in employment and decline in tax revenue from capital gains, which is a result of the on-going stock market correction, and tax reductions associated with conformity with the federal tax code. The State Budget Office has estimated that the stock market correction has reduced State tax revenues by approximately $130 million annually.

The revenue estimate for the 2004 – 2005 biennium provides approximately $4.9 billion in general tax revenues to be available for general purpose spending. This is approximately $1.2 billion less than what is required to maintain current services levels in the 2004 – 2005 biennium.
This will result in an economic and budgetary challenge for the State of Maine.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Bureau of Accounts and Control
14 State House Station
Augusta, ME 04333-0014
207-626-8420
Bureau.Accounts-Ctrl@maine.gov

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2002
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Cash and Short-Term Investments	$ 206,438	$ 2,536	$ 208,974	$ 127,002
Cash with Fiscal Agent	25,223	-	25,223	-
Investments	137,213	805	138,018	617,957
Restricted Deposits and Investments	97,861	441,346	539,207	-
Inventories	26,711	2,629	29,340	874
Receivables, Net of Allowance for Uncollectibles:				
Taxes	311,431	-	311,431	-
Loans	-	-	-	63,839
Notes	-	-	-	1,750
Other	169,501	39,702	209,203	48,023
Internal Balances	1,398	(1,398)	-	-
Due from Other Governments	233,768	-	233,768	99,994
Due from Primary Government	-	-	-	10,384
Other Current Assets	2,239	28	2,267	55,914
Total Current Assets	1,211,783	485,648	1,697,431	1,025,737
Noncurrent Assets:				
Due from Other Governments	-	-	-	1,030,039
Assets Held in Trust	-	-	-	155
Restricted Deposits and Investments	-	-	-	158,028
Investments	62,159	474	62,633	375,175
Receivables, Net of Allowance for Uncollectibles:				
Taxes	35,459	-	35,459	-
Loans	8,651	7	8,658	2,190,674
Notes	-	-	-	67,708
Other	40,975	-	40,975	9,286
Other Noncurrent Assets	-	-	-	13,671
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	2,332,346	7,996	2,340,342	179,518
Buildings and Equipment	614,347	80,551	694,898	602,467
Less: Accumulated Depreciation	(219,509)	(29,606)	(249,115)	(326,427)
Capital Assets, Net of Accumulated Depreciation	2,727,184	58,941	2,786,125	455,558
Total Noncurrent Assets	2,874,428	59,422	2,933,850	4,300,294
Total Assets	4,086,211	545,070	4,631,281	5,326,031
Liabilities				
Current Liabilities:				
Accounts Payable	342,758	10,337	353,095	41,201
Accrued Payroll	38,088	451	38,539	414
Tax Refunds Payable	115,905	-	115,905	-
Due to Other Governments	76,215	-	76,215	6,240
Due to Component Units	12,008	-	12,008	-
Amounts Held under State Loan Programs	-	-	-	25,208
Undistributed Grants and Administrative Funds	-	-	-	3,227
Allowances for Losses on Insured Commercial Loans	-	-	-	6,610
Bonds Payable	85,165	-	85,165	-
Certificates of Participation and Other Financing Arrangements	5,018	-	5,018	-
Obligations Under Capital Leases	-	-	-	174
Accrued Interest	2,883	-	2,883	43,907
Claims Payable	-	-	-	-
Compensated Absences	3,974	54	4,028	314
Deferred Revenue	19,056	359	19,415	52,889
Notes Payable	16	-	16	147,657
Other Accrued Liabilities	5,723	8,058	13,781	35,195
Total Current Liabilities	706,809	19,259	726,068	363,036

The accompanying notes are an integral part of the financial statements.

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Long-Term Liabilities:				
Deferred Revenue	$ 11,390	$ -	$ 11,390	$ 764
Certificates of Participation and Other Financing Arrangements	17,608	-	17,608	-
Bonds Payable	452,976	-	452,976	3,556,208
Obligations Under Capital Leases	34,105	-	34,105	4,724
Claims Payable	79,063	-	79,063	-
Compensated Absences Payable	34,349	472	34,821	-
Due to Other Governments	-	-	-	5,142
Amounts Held Under State Loan Programs	-	-	-	42,540
Rebate Payable to IRS -Arbitrage Earnings	-	-	-	-
Pension Obligation	76,099	-	76,099	-
Other Liabilities	-	-	-	56,461
Total Long-Term Liabilities	705,590	472	706,062	3,665,839
Total Liabilities	1,412,399	19,731	1,432,130	4,028,875
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,424,949	53,679	2,478,628	371,493
Restricted:				
Highway Fund Purposes	78,070	-	78,070	-
Federal Programs	20,836	-	20,836	-
Natural Resources	21,683	-	21,683	-
Capital Projects and Debt Service	62,902	-	62,902	-
Unemployment Compensation	-	464,862	464,862	-
Other Purposes	-	-	-	756,107
Funds Held as Permanent Investments:				
Expendable	49,213	-	49,213	-
Nonexpendable	10,272	-	10,272	-
Unrestricted	5,887	6,798	12,685	169,556
Total Net Assets	$ 2,673,812	$ 525,339	$ 3,199,151	$ 1,297,156

STATE OF MAINE
STATEMENT OF ACTIVITIES

June 30, 2002
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges For Services	Operating Grants/ Contributions	Capital Grants/ Contributions
Functions/Programs				
Primary Government:				
Governmental Activities:				
General Government	$ 432,206	$ 65,882	$ 11,273	$ -
Economic Development	131,285	54,042	22,308	-
Education And Culture	1,323,259	2,062	129,376	-
Human Services	2,367,786	10,606	1,360,562	-
Labor	92,544	2,245	74,142	-
Natural Resources	132,858	54,921	23,493	-
Public Protection	108,742	15,380	38,357	-
Transportation	240,869	96,457	7,001	152,029
Interest Expense	24,576	-	-	-
Total Governmental Activities	4,854,125	301,595	1,666,512	152,029
Business-Type Activities:				
Employment Security	123,606	146,297	34,321	-
Alcoholic Beverages	56,896	81,620	-	-
Lottery	120,520	159,133	-	-
Other	13,990	4,456	-	2,048
Total Business-Type Activities	315,012	391,506	34,321	2,048
Total Primary Government	$ 5,169,137	$ 693,101	$ 1,700,833	$ 154,077
Component Units:				
Child Development Services	$ 21,558	$ 3,983	$ 3,942	$ -
Finance Authority of Maine	25,252	3,286	23,338	-
Maine Educational Loan Authority	4,412	3,582	1,621	-
Maine Health And Higher Educational Facilities Authority	109,882	58,256	9,424	-
Maine Maritime Academy	19,126	7,919	1,282	1,486
Maine Municipal Bond Bank	69,293	51,512	12,083	34,197
Maine State Housing Authority	208,654	93,874	133,095	-
Maine Technical College System	76,745	14,912	17,884	16,413
Northern New England Passenger Rail Authority	6,862	88	2,720	8,196
University of Maine System	502,401	186,567	118,655	6,341
Total Component Units	$ 1,044,185	$ 423,979	$ 324,044	$ 66,633

General revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Assessments
Unrestricted Investment Earnings
Nonprogram-specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held For Sale
Tobacco Settlement
Extraordinary Item - Loss on Bond Redemption
Transfers - Internal Activities
Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

Net (Expense) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Units
$ (355,051)	$ -	$ (355,051)	$ -
(54,935)	-	(54,935)	-
(1,191,821)	-	(1,191,821)	-
(996,618)	-	(996,618)	-
(16,157)	-	(16,157)	-
(54,444)	-	(54,444)	-
(55,005)	-	(55,005)	-
14,618	-	14,618	-
(24,576)	-	(24,576)	-
(2,733,989)	-	(2,733,989)	-
-	57,012	57,012	-
-	24,724	24,724	-
-	38,613	38,613	-
-	(7,486)	(7,486)	-
-	112,863	112,863	-
(2,733,989)	112,863	(2,621,126)	-
-	-	-	(13,633)
-	-	-	1,372
-	-	-	791
-	-	-	(42,202)
-	-	-	(8,439)
-	-	-	28,499
-	-	-	18,315
-	-	-	(27,536)
-	-	-	4,142
-	-	-	(190,838)
-	-	-	(229,529)
158,493	-	158,493	-
1,043,312	-	1,043,312	-
149,193	-	149,193	-
35,546	-	35,546	-
976,618	-	976,618	-
63,111	-	63,111	-
-	-	-	-
8,944	-	8,944	8,107
-	-	-	250,193
81,981	1,093	83,074	4,530
-	-	-	(1,302)
112,125	-	112,125	-
-	-	-	(900)
69,636	(69,636)	-	-
2,698,959	(68,543)	2,630,416	260,628
(35,030)	44,320	9,290	31,099
2,708,842	481,019	3,189,861	1,266,057
$ 2,673,812	$ 525,339	$ 3,199,151	$ 1,297,156

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2002
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Totals Governmental Funds
Assets						
Current Assets:						
Cash and Short-Term Investments	$ 9,836	$ 49,264	$ -	$ 87,216	$ 7,007	$ 153,323
Cash with Fiscal Agent	9,376	7,027	-	8,063	-	24,466
Investments	1,069	20,029	1,105	41,471	51,907	115,581
Restricted Deposits and Investments	8,467	-	-	-	54,232	62,699
Inventories	2	2	22,547	-	-	22,551
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	291,214	19,232	-	985	-	311,431
Other Receivable	55,525	2,053	38,981	63,323	-	159,882
Due from Other Funds	9,600	259	31,393	120,849	-	162,101
Due from Other Governments	-	-	233,768	-	-	233,768
Other Current Assets	1,155	26	1	-	-	1,182
Total Current Assets	386,244	97,892	327,795	321,907	113,146	1,246,984
Noncurrent Assets						
Investments	630	11,799	651	24,431	11,905	49,416
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	35,459	-	-	-	-	35,459
Loans Receivable	1	202	-	8,448	-	8,651
Other Receivable	-	-	-	40,975	-	40,975
Working Capital Advances Receivable	1,286	2,199	-	-	-	3,485
Total Noncurrent Assets	37,376	14,200	651	73,854	11,905	137,986
Total Assets	$ 423,620	$ 112,092	$ 328,446	$ 395,761	$ 125,051	$ 1,384,970
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	$ 113,704	$ 16,290	$ 192,487	$ 9,222	$ 1,039	$ 332,742
Accrued Payroll	18,406	5,723	6,812	5,804	-	36,745
Tax Refunds Payable	115,905	-	-	-	-	115,905
Due to Other Governments	-	-	59,913	16,302	-	76,215
Due to Other Funds	110,754	3,711	20,702	33,720	-	168,887
Due to Component Units	2,967	324	4,538	2,138	2,041	12,008
Compensated Absences	1,980	713	588	553	-	3,834
Deferred Revenue	-	-	22,568	55,807	567	78,942
Notes Payable	5	11	-	-	-	16
Other Accrued Liabilities	2,014	167	2	221	2	2,406
Total Current Liabilities	365,735	26,939	307,610	123,767	3,649	827,700
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	175	-	175
Deferred Revenue	37,559	4,350	-	5,836	-	47,745
Total Long-Term Liabilities	37,559	4,350	-	6,011	-	47,920
Total Liabilities	403,294	31,289	307,610	129,778	3,649	875,620
Fund Balances:						
Reserved						
Continuing Appropriations	90,783	81,895	80,556	264,277	30,433	547,944
Rainy Day Fund	32,914	-	-	-	-	32,914
Debt Service	9,376	3,305	-	-	-	12,681
Capital Projects	-	-	-	-	31,541	31,541
Permanent Trusts	-	-	-	-	10,272	10,272
Other	23,422	2,400	-	1	49,156	74,979
Unreserved	(136,169)	(6,797)	(59,720)	1,705	-	(200,981)
Total Fund Balances	20,326	80,803	20,836	265,983	121,402	509,350
Total Liabilities and Fund Balances	$ 423,620	$ 112,092	$ 328,446	$ 395,761	$ 125,051	$ 1,384,970

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2002
(Expressed in Thousands)

Total fund balances for governmental funds		$	509,350
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets that were acquired in current & prior periods are recognized as governmental fund economic resources net of accumulated depreciation.	2,762,321		
Less: Accumulated depreciation	(120,342)		2,641,979
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. The balances at the beginning of the fiscal year were recorded as follows:			
Bonds Payable	(406,490)		
Certificates of Participation and Other Financing Arrangements	(550)		
Compensated Absences	(30,979)		
Pension Obligation	(75,341)		(513,360)
Current year additions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.			(2,163)
Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Net Assets.			(27,610)
Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Net Assets.			87,605
Principal payments on other financing arrangements are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Net Assets.			188
Current year proceeds from other financing arrangements are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Net Assets.			(5,000)
Interest payable at June 30, 2002 is recognized in the Statement of Net Assets under full-accrual accounting. No accrual is recorded in the governmental fund statements for interest that was not paid from current financial resources.			(2,883)
Current year additions to pension obligations are recognized as a liability when the obligation is incurred under full-accrual accounting.			(758)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			99,769
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.			(113,305)
Net assets of governmental activities		$	2,673,812

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Totals Governmental Funds
Revenues:						
Taxes	$ 2,173,345	$ 183,759	$ 3	$ 60,351	$ -	$ 2,417,458
Assessments and Other Revenues	61,685	91,723	2	59,367	-	212,777
Federal Grants and Reimbursements	21,578	-	1,814,183	1,586	-	1,837,347
Service Charges	41,111	2,777	6,596	91,100	-	141,584
Investment Income (Loss)	3,830	2,857	2,296	536	(3,097)	6,422
Miscellaneous Revenues	457	2,931	3,703	82,798	1,432	91,321
Total Revenues	2,302,006	284,047	1,826,783	295,738	(1,665)	4,706,909
Expenditures:						
Current:						
General Government	277,640	30,518	10,754	156,489	6,454	481,855
Economic Development	61,348	-	24,606	46,116	1,250	133,320
Education and Culture	1,157,639	-	129,972	5,384	32,264	1,325,259
Human Services	927,868	-	1,387,147	126,830	2,104	2,443,949
Labor	14,729	-	74,181	3,281	-	92,191
Natural Resources	51,439	30	22,388	55,287	7,457	136,601
Public Protection	24,941	25,505	35,528	23,048	-	109,022
Transportation	9,308	215,870	147,023	10,201	11,583	393,985
Debt Service:						
Principal Payments	64,305	23,300	-	-	-	87,605
Interest Payments	15,479	5,300	-	-	-	20,779
Total Expenditures	2,604,696	300,523	1,831,599	426,636	61,112	5,224,566
Revenues over (under) Expenditures	(302,690)	(16,476)	(4,816)	(130,898)	(62,777)	(517,657)
Other Financing Sources (Uses):						
Transfers from Other Funds	128,126	1,778	14,168	146,512	899	291,483
Transfers to Other Funds	(124,836)	(2,610)	(15,350)	(40,785)	(30,236)	(213,817)
Bonds Issued	-	5,000	-	-	27,610	32,610
Net Other Financing Sources (Uses)	3,290	4,168	(1,182)	105,727	(1,727)	110,276
Revenues and Other Sources over (under) Expenditures and Other Uses	(299,400)	(12,308)	(5,998)	(25,171)	(64,504)	(407,381)
Fund Balances at Beginning of Year (As Restated)	319,726	93,111	26,834	291,154	185,906	916,731
Fund Balances at End of Year	$ 20,326	$ 80,803	$ 20,836	$ 265,983	$ 121,402	$ 509,350

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2002
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$	(407,381)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:			
Capital outlay	262,764		
Depreciation expense	(24,541)		238,223
Current year additions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.			(2,163)
Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.			(27,610)
Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.			87,605
Principal payments on other financing arrangements are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.			188
Current year proceeds from other financing arrangements are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.			(5,000)
Interest payable at June 30, 2002 is recognized in the Statement of Activities under full-accrual accounting. No accrual is recorded in the governmental fund statements for interest that was not paid from current financial resources.			(2,883)
Interest payable at June 30, 2001 is recognized in the governmental fund statements when paid. Under full accrual accounting, this amount was recognized in the Statement of Activities in the period incurred.			3,899
Current year additions to pension obligations are recognized as an expense when the obligation is incurred under full-accrual accounting.			(758)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			64,155
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.			16,695
Changes in net assets of governmental activities		$	(35,030)

The accompanying notes are an integral part of the financial statements.


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2002
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		
	Employment Security	Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Cash and Short-Term Investments	$ -	$ 2,536	$ 2,536	$ 53,115
Cash with Fiscal Agent	-	-	-	757
Investments	-	805	805	21,632
Restricted Deposits and Investments	441,346	-	441,346	35,162
Inventories	-	2,629	2,629	4,160
Receivables, Net of Allowance for Uncollectibles:				
Other Receivable	29,478	10,224	39,702	9,619
Due from Other Funds	28	574	602	10,751
Other Current Assets	-	28	28	1,057
Total Current Assets	470,852	16,796	487,648	136,253
Noncurrent Assets				
Investments	-	474	474	12,743
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	7	7	183,781
Fixed Assets - Net of Depreciation	-	58,941	58,941	85,204
Total Noncurrent Assets	-	59,422	59,422	281,728
Total Assets	$ 470,852	$ 76,218	$ 547,070	$ 417,981
Liabilities				
Current Liabilities:				
Accounts Payable	$ 4,375	$ 5,966	$ 10,341	$ 10,015
Accrued Payroll	-	451	451	1,343
Due to Other Funds	1,046	340	1,386	3,181
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	4,851
Compensated Absences	-	54	54	1,347
Deferred Revenue	-	359	359	2,324
Other Accrued Liabilities	569	7,483	8,052	3,315
Total Current Liabilities	5,990	14,653	20,643	26,376
Long-Term Liabilities:				
Working Capital Advances Payable	-	1,000	1,000	2,310
Deferred Revenue	-	-	-	1,204
Noncurrent Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,413
Revenue Bonds Payable	-		-	191,646
Obligations Under Capital Leases	-	-	-	34,105
Claims Payable	-	-	-	79,063
Compensated Absences	-	472	472	-
Total Long-Term Liabilities	-	1,472	1,472	320,741
Total Liabilities	5,990	16,125	22,115	347,117
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	53,679	53,679	26,802
Restricted For:				
Unemployment Compensation	464,862	-	464,862	-
Other Purposes	-	-	-	44,062
Unrestricted	-	6,414	6,414	-
Total Net Assets	$ 464,862	$ 60,093	$ 524,955	$ 70,864
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities			$ 384	
Net Assets of Business-Type Activities			$ 525,339	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$ -	$ 245,209	$ 245,209	$ 298,126
Assessments	119,773	-	119,773	-
Miscellaneous Revenues	35,351	1	35,352	569
Total Operating Revenues	155,124	245,210	400,334	298,695
Operating Expenses				
General Operations	-	188,084	188,084	243,356
Depreciation	-	3,708	3,708	14,836
Claims/Fees Expense	123,606	-	123,606	10,581
Other Operating Expenses	-	-	-	1,375
Total Operating Expenses	123,606	191,792	315,398	270,148
Operating Income (Loss)	31,518	53,418	84,936	28,547
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	26,123	-	26,123	1,861
Interest Expense	-	-	-	(14,690)
Other Nonoperating Revenues (Expenses) - net	-	464	464	482
Total Nonoperating Revenues (Expenses)	26,123	464	26,587	(12,347)
Income (Loss) Before Capital Contributions and Transfers	57,641	53,882	111,523	16,200
Capital Contributions and Transfers				
Capital Contributions from Other Funds	-	2,048	2,048	(21)
Transfers from (to) Other Funds	314	(69,950)	(69,636)	-
Total Capital Contributions and Transfers In (Out)	314	(67,902)	(67,588)	(21)
Change in Net Assets	57,955	(14,020)	43,935	16,179
Total Net Assets - Beginning of Year	406,907	74,113	481,020	54,685
Total Net Assets - End of Year	$ 464,862	$ 60,093	$ 524,955	$ 70,864
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-type activities			$ 384	
Change in Business-Type Net Assets			$ 525,339	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2002
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		
	Employment Security	Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 166,308	$ 255,508	$ 421,816	$ 292,164
Payments of Benefits	(121,377)	-	(121,377)	-
Payments to Prize Winners	-	(94,199)	(94,199)	-
Payments to Suppliers	-	(86,671)	(86,671)	(253,897)
Payments to Employees	-	(9,208)	(9,208)	(26,943)
Net Cash Provided (Used) by Operating Activities	44,931	65,430	110,361	11,324
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	314	3,134	3,448	315
Operating Transfers out	-	(68,085)	(68,085)	(1,613)
Net Cash Provided (Used) by Noncapital Financing Activities	314	(64,951)	(64,637)	(1,298)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(3,754)	(3,754)	(23,104)
Capital Contributions	-	(1,365)	(1,365)	689
Proceeds from Financing Arrangements	-	-	-	40,508
Principal and Interest Paid on Financing Arrangements	-	-	-	(15,863)
Proceeds from Sale of Capital Assets	-	140	140	(1,855)
Net Cash Provided (Used) by Capital Financing Activities	-	(4,979)	(4,979)	375
Cash Flows from Investing Activities				
Interest Revenue	26,123	465	26,588	4,320
Payments to Purchase Investments	-	(95)	(95)	(6,921)
Proceeds from Sale of Investments	-	1,809	1,809	2,633
Net Cash Provided (Used) by Investing Activities	26,123	2,179	28,302	32
Net Increase (Decrease) in Cash/Cash Equivalents	71,368	(2,321)	69,047	10,433
Cash/Cash Equivalents - Beginning of Year	369,978	4,857	374,835	78,601
Cash/Cash Equivalents - End of Year	$ 441,346	$ 2,536	$ 443,882	$ 89,034
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ 31,518	$ 53,418	$ 84,936	$ 28,547
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	3,708	3,708	14,836
Decrease (Increase) in Assets				
Accounts Receivable	12,518	9,307	21,825	(30,091)
Interfund Balances	(966)	(115)	(1,081)	1,565
Inventories	-	1,107	1,107	756
Increase (Decrease) in Liabilities				
Accounts Payable	1,392	(2,584)	(1,192)	(3,745)
Accrued Payroll Expenses	-	(48)	(48)	(182)
Change in Compensated Absences	-	11	11	173
Other Accruals	468	626	1,094	(535)
Total Adjustments	13,413	12,012	25,425	(17,223)
Net Cash Used by Operating Activities	$ 44,931	$ 65,430	$ 110,361	$ 11,324

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2002
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency
Assets			
Cash and Short-Term Investments	$ 136,041	$ 376	$ 5,569
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	8,609	-	-
Interest and Dividends	14,565	-	-
Due from Brokers for Securities Sold	58,287	-	-
Investments at Fair Value:			
Debt Securities	889,485	-	-
Equity Securities	1,178,841	-	-
Common/Collective Trusts	4,442,704	-	-
Other	7,770	8,466	2,476
Securities Lending Collateral	390,370	-	-
Assets Held in Trust	-	4,587	1,254,309
Fixed Assets - Net of Depreciation	599	-	-
Total Assets	$ 7,127,271	$ 13,429	$ 1,262,354
Liabilities			
Accounts Payable	$ 10,974	$ 4	$ 39
Due to Brokers for Securities Purchased	84,398	-	-
Agency Liabilities	-	-	1,262,300
Obligations Under Securities Lending	390,370	-	-
Other Accrued Liabilities	9,227	4,034	15
Total Liabilities	$ 494,969	$ 4,038	$ 1,262,354
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	6,632,302	9,391	
Total Net Assets	$ 6,632,302	$ 9,391	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 130,263	$ -
State and Local Agencies	423,858	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	(609,309)	(1,733)
Interest and Dividends	89,609	1,094
Less Investment Expense:		
Investment Activity Expense	8,711	-
Cost of Securities Lending	1,660	-
Net Investment Income (Loss)	(530,071)	(639)
Miscellaneous Revenues	-	6,992
Transfers In	-	483
Total Additions	24,050	6,836
Deductions:		
Benefits Paid to Participants or Beneficiaries	396,398	2,741
Refunds and Withdrawals	15,822	-
Administrative Expenses	8,307	-
Transfers Out	-	8,513
Total Deductions	420,527	11,254
Net Increase (Decrease)	(396,477)	(4,418)
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	7,028,779	13,809
End of Year	$ 6,632,302	$ 9,391

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2002
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Maine Educational Loan Authority	Maine Health and Higher Educational Facilities Authority
Assets				
Current Assets:				
Cash and Cash Equivalents	$ -	$ 19,240	$ 2,193	$ 84,643
Investments	3,580	5,001	-	30,187
Inventories	-	-	-	-
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	5,345	33,115
Notes Receivable	-	1,750	-	-
Other Receivable	101	691	417	851
Due from Other Governments	-	-	-	-
Due from Primary Government	1,179	-	-	-
Other Current Assets	57	358	91	972
Total Current Assets	4,917	27,040	8,046	149,768
Noncurrent Assets:				
Assets Held in Trust	-	-	-	-
Restricted Deposits and Investments	-	8,501	-	-
Investments	-	15,333	19,239	88,236
Receivables, Net of Current Portion:				
Loans Receivable	-	-	40,462	884,057
Notes Receivable	-	27,162	-	3,175
Other Receivable	-	-	-	1,145
Due from Other Governments	-	-	-	-
Fixed Assets - Net of Depreciation	635	2,088	-	4,327
Other Noncurrent Assets	-	-	341	739
Total Noncurrent Assets	635	53,084	60,042	981,679
Total Assets	5,552	80,124	68,088	1,131,447
Liabilities				
Current Liabilities:				
Accounts Payable	1,830	1,494	60	728
Accrued Payroll	284	-	-	130
Compensated Absences	314	-	-	-
Due to Other Governments	-	-	-	863
Amounts Held under State Loan Programs	-	-	-	-
Undisbursed Grant and Administrative Funds	-	3,227	-	-
Allowance for Losses on Insured Commercial Loans	-	6,610	-	-
Bonds and Notes Payable	-	51	1,739	35,417
Obligations under Capital Leases	3	-	-	-
Interest Payable	-	-	-	23,539
Deferred Revenue	106	1,015	258	2,217
Other Accrued Liabilities	-	192	372	1,529
Total Current Liabilities	2,537	12,589	2,429	64,423
Long-term Liabilities:				
Due to Other Governments	-	-	-	1,401
Bonds and Notes Payable	-	1,243	62,446	974,765
Amounts Held under State Loan Programs	-	42,540	-	-
Obligations Under Capital Leases	14	-	-	-
Deferred Revenue	-	-	764	-
Other Liabilities	-	-	277	-
Total Long-term Liabilities	14	43,783	63,487	976,166
Total Liabilities	2,551	56,372	65,916	1,040,589
Net Assets				
Invested in Capital Assets, Net of Related Debt	512	2,088	-	-
Restricted	-	365	1,308	76,788
Unrestricted	2,489	21,299	864	14,070
Total Net Assets	$ 3,001	$ 23,752	$ 2,172	$ 90,858

The accompanying notes are an integral part of the financial statements.

Maine Maritime Academy	Maine Municipal Bond Bank	Maine State Housing Authority	Maine Technical College System	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 280	$ 457	$ 921	$ (2,760)	$ 929	$ 21,099	$ 127,002
4,784	159,531	303,365	16,779	319	94,411	617,957
174	-	-	636	64	-	874
183	-	25,196	-	-	-	63,839
-	-	-	-	-	-	1,750
1,725	2,021	19,101	2,829	-	20,287	48,023
-	97,966	1,117	-	911	-	99,994
-	1,642	-	1,045	-	6,518	10,384
657	48,614	-	320	47	4,798	55,914
7,803	310,231	349,700	18,849	2,270	147,113	1,025,737
155	-	-	-	-	-	155
2,424	-	-	581	4,800	141,722	158,028
7,966	113,230	119,609	6,422	-	5,140	375,175
3,015	-	1,263,140	-	-	-	2,190,674
-	-	-	-	-	37,371	67,708
993	-	876	-	-	6,272	9,286
-	1,030,039	-	-	-	-	1,030,039
13,288	921	-	76,195	1,109	356,995	455,558
4,849	1,311	5,089	-	-	1,342	13,671
32,690	1,145,501	1,388,714	83,198	5,909	548,842	4,300,294
40,493	1,455,732	1,738,414	102,047	8,179	695,955	5,326,031
2,511	490	18,948	1,868	1,917	11,355	41,201
-	-	-	-	-	-	414
-	-	-	-	-	-	314
-	1,724	3,653	-	-	-	6,240
-	25,208	-	-	-	-	25,208
-	-	-	-	-	-	3,227
-	-	-	-	-	-	6,610
83	82,940	23,030	85	-	4,312	147,657
-	-	-	-	-	171	174
-	9,095	11,273	-	-	-	43,907
118	-	29,993	792	-	18,390	52,889
312	478	1,304	7,210	-	23,798	35,195
3,024	119,935	88,201	9,955	1,917	58,026	363,036
1,594	2,147	-	-	-	-	5,142
2,720	969,634	1,418,711	145	-	126,544	3,556,208
-	-	-	-	-	-	42,540
-	-	-	4,490	-	220	4,724
-	-	-	-	-	-	764
-	-	-	-	-	56,184	56,461
4,314	971,781	1,418,711	4,635	-	182,948	3,665,839
7,338	1,091,716	1,506,912	14,590	1,917	240,974	4,028,875
10,408	-	-	72,056	1,109	285,320	371,493
14,444	314,893	213,769	6,135	4,800	123,605	756,107
8,303	49,123	17,733	9,266	353	46,056	169,556
$ 33,155	$ 364,016	$ 231,502	$ 87,457	$ 6,262	$ 454,981	$ 1,297,156

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2002
(Expressed in Thousands)

		Program Revenues			
Functions/Programs	**Expenses**	**Charges For Services**	**Operating Grants/ Contributions**	**Capital Grants/ Contributions**	**Net (Expense) Revenue**
Child Development Services	$ 21,558	$ 3,983	$ 3,942	$ -	$ (13,633)
Finance Authority of Maine	25,252	3,286	23,338	-	1,372
Maine Educational Loan Authority	4,412	3,582	1,621	-	791
Maine Health and Higher Educational Facilities Authority	109,882	58,256	9,424	-	(42,202)
Maine Maritime Academy	19,126	7,919	1,282	1,486	(8,439)
Maine Municipal Bond Bank	69,293	51,512	12,083	34,197	28,499
Maine State Housing Authority	208,654	93,874	133,095	-	18,315
Maine Technical College System	76,745	14,912	17,884	16,413	(27,536)
Northern New England Passenger Rail Authority	6,862	88	2,720	8,196	4,142
University of Maine System	502,401	186,567	118,655	6,341	(190,838)
Total	$ 1,044,185	$ 423,979	$ 324,044	$ 66,633	$ (229,529)

General Revenues:	
Unrestricted Interest and Investment Earnings	8,107
Non program Specific Grants, Contributions, & Appropriations	250,193
Miscellaneous Income	4,530
Loss on Assets Held for Sale	(1,302)
Extraordinary Item - Loss on Bond Redemption	(900)
Total General Revenues and Extraordinary Items	260,628
Change in Net Assets	31,099
Net Assets, Beginning of the Year, As Restated	1,266,057
Net Assets, End of the Year	$ 1,297,156

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

INDEX TO THE
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State includes all funds, account groups, organizations, agencies, boards, commissions and Authorities that make up the State's legal entity. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which it appoints a voting majority of the governing board and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government or if the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. The State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority (MGFA) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included as an internal service fund.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State and includes the financial data of the following entities:

The Maine Health and Higher Educational Facilities Authority assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority consists of 12 members, one of whom must be the Superintendent of Banking, *ex officio*; one of whom must be the Commissioner of Human Services, *ex officio*; one of whom must be the Commissioner of Education, *ex officio*; one of whom must be the Treasurer of State, *ex officio*; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, may finance student loan programs of institutions of higher education.

The Northern New England Passenger Rail Authority, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints the five voting members of the Authority.

The Child Development Services System was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

The Finance Authority of Maine, created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program

Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program Fund. The NextGen College Investing Plan is the primary program of the Maine College Savings Program Fund. The Governor appoints the 15 voting members of the Authority.

The Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multi-family residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State administering federal weatherization, energy conservation, fuel assistance and homeless grant programs and collecting/disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Governor appoints four of the Board's seven voting members.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy.

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

The University of Maine System is the State University. In 1968 all existing units of the State college system were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses and a central administrative office.

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to:

Maine Governmental Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Health and Higher Educational Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Northern New England Passenger Rail Authority
5 Industry Road
South Portland, ME 04106-6154

Child Development Services System
146 State House Station
Augusta, ME 04333-0146

Finance Authority of Maine
5 Community Dr., PO Box 949
Augusta, ME 04332-0949

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

Maine Educational Loan Authority
One City Center 11th Floor
Portland, ME 04101

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine Maritime Academy
Castine, ME 04420

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04333-0131

University of Maine System
107 Maine Avenue
Bangor, ME 04401

Other Component Units
The following entities meet the criteria of component units but have not been included in the financial statements of the primary government. The amounts associated with these component units are not material to the State's financial statements: the Maine Port Authority, the Maine School of Science and Mathematics, the Maine Science and Technology Foundation, the Maine Technology Institute, and the Loring Development Authority.

The Loring Development Authority is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to 2,805 of approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the LDA. It is expected that title to the remaining acreage will be transferred to the LDA over the next 5 years. The LDA has not included these assets in their financial statements and has not prepared a financial report in accordance with GASB Statement No. 34.

The LDA meets the criteria for inclusion as a discretely presented component unit of the State of Maine due, in part, to a reserve fund restoration commitment for outstanding bonded indebtedness of the LDA. However, since the LDA does not currently have any outstanding bonded debt, they have not been included in the financial statements of the primary government.

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements
Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting
The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, the State's proprietary funds follow all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, that is, when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end of the fiscal year. Individual income, corporate income, and sales and use taxes are considered available if collected within 12 months of the end of the fiscal year. Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Expenditures generally are recorded when a liability is incurred. However, expenditures related to debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation
The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* accounts for contributions received from employers and unemployment compensation benefits paid to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:
Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include learning technology, acquisition of public reserved lands, and other activities.

Capital Projects Funds account for the acquisition or construction of major capital assets and other programs financed by proceeds from bond issues.

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:
Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as alcoholic beverages and lottery operations, and transportation services.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information services, fleet management, risk management and health-related benefits.

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds report those resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine State Retirement System, which was previously reported as a discrete component unit, but is now presented with the State's fiduciary funds in accordance with GASB Statement No. 34.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands and Permanent School funds.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts, and investments of certain discretely presented component units.

D. FISCAL YEAR-ENDS

All funds and discretely presented component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority and the Maine State Housing Authority, which utilize December 31 year-ends.

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

Cash and Cash Equivalents

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The pooled balances are reported at fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds, proceeds of Certificates of Participation that have not been spent, and funding to the Maine Biomedical Research Board which is held by the Maine Technology Institute. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Short-Term Investments on the balance sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations with maturities of three months or less when purchased. Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Certain component units participate in the cash pool and record their balances as cash and investments. Component units' funds have been removed from cash and investments of the primary government and shown as component unit cash and investments for purposes of note disclosure. Component units' investments are shown at fair value.

Assets Held in Trust

These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. The State also holds $124 million of Workers' Compensation and $13 million of Employment Security surety bonds which are not reflected on the financial statements.

Restricted Deposits and Investments

Restricted deposits and investments include: Learning Technology Endowment funds; unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Government Facilities Authority, a blended component unit that has been independently audited; and funds that have been invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

Inventories

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Unexpended balances of food stamps (stated at coupon value), and undistributed vaccines and food commodities at fiscal year end are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when the food stamps, vaccines and food commodities are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Alcoholic Beverages Fund, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

Inventories included in the component unit column are stated at the lower of cost (using the first-in, first-out method) or market.

Receivables
Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. The receivables in the component units column are amounts that have arisen in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, 2002, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable". In the fund financial statements, advances receivable are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as "Due to/from Primary Government" or "Due to/from Component Units."

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other Human Services Programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents money due from other governments for grants, bond repayment and retirement benefits. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers and Temporary Assistance for Needy Families.

Fixed Assets
Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items) are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes buildings valued at $1 million or more for governmental activities and $10 thousand or more for business activities; equipment valued at $10 thousand or more for governmental activities and $3 thousand or more for business activities; and all land, regardless of value. Capital assets are recorded at cost or, if not purchased, at fair value as of the date of acquisition. In some instances, capital asset historical costs were not available; therefore, the costs of these assets at the dates of acquisitions have been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

In the government-wide statements, depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, and 2-25 years for equipment. However, the State's significant infrastructure assets utilize an alternative accounting treatment in which costs to maintain and preserve these assets are expensed and no depreciation expense is recorded. This approach is discussed further in the Required Supplementary Information portion of this report.

Fixed assets of component units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements and 3–15 years for equipment, furniture, fixtures and vehicles. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

Tax Refunds Payable
The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable
Claims payable represent workers' compensation and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences
In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue
In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Federal Fund is primarily for food stamps and vaccines not yet issued.

Long-Term Obligations
In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Assets/Fund Balance
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

Fund Balance Reservations
Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: 1) funds legally restricted for a specific future use or 2) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund. The State has the following reservations:

> *Continuing Appropriations* – indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended.
>
> *Rainy Day Fund* – indicates amounts reserved for potential operating deficits or other emergencies. The maximum amount this fund may carry, by law, is six percent of the total General Fund revenues received in the immediately preceding year.
>
> *Debt Service* – indicates amounts reserved for payment of future debt service obligations.
>
> *Capital Projects* – indicates a legally segregated portion of funds available to finance the construction of major capital facilities.
>
> *Permanent Trusts* – indicates assets reserved for the purpose of the permanent fund.
>
> *Other* – indicates fund balance reserved for other specified purposes including amounts for working capital needs, long-term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (i.e. general government, education, transportation, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either "dedicated" or "undedicated." Undedicated revenues

are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use, it is the State's policy to use dedicated resources first.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructures (e.g. highways) are included with expenditures by function.

NOTE 2 – BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

In accordance with statute, the Governor presents a biennial budget for the General Fund and special revenue funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallocation decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. In order to provide sufficient funding for several programs during the year ended June 30, 2002, supplemental appropriations of $9.5 million were required for the General Fund.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

During fiscal year 2002, the State implemented several new accounting standards issued by GASB:

Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*,

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*,

Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*,

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*

Statement No. 38, *Certain Financial Statement Note Disclosures*, and

Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

These new accounting standards changed the financial reporting model used by governments and universities. Governments are now required to present government-wide financial statements prepared using the accrual basis of accounting and the economic resources measurement focus. In addition, new definitions for fund types resulted in fund reclassifications and adjustments to fund equities as reported in the prior financial statements. The changes required by these statements are presented in the following table (expressed in thousands):

	June 30, 2001 As Previously Reported	Fund Reclassifications	Prior Period Adjustments	June 30, 2001 As Restated
GOVERNMENTAL FUNDS AND ACTIVITIES				
Major Funds:				
General Fund	$ 311,571	$ -	$ 8,155	$ 319,726
Highway	110,986	-	(17,875)	93,111
Federal	22,013	-	4,821	26,834
Other Special Revenue	261,371	-	29,783	291,154
Non-major Funds:				
Special Revenue Funds:				
Government Facilities Authority	32,264	(32,264)	-	-
Learning Technology Endowment	-	52,727	(1,000)	51,727
Baxter Park	-	53,567	-	53,567
Revenue on Permanent Funds	-	105	-	105
Total Special Revenue Funds	32,264	74,135	(1,000)	105,399
Capital Projects Fund	69,596	-	-	69,596
Permanent Funds:				
Baxter Trust	-	4,646	-	4,646
Other Trusts	-	6,265	-	6,265
Total Permanent Funds	-	10,911	-	10,911
Total Non-major Funds	101,860	85,046	(1,000)	185,906
Total Governmental Funds	$ 807,801	$ 85,046	$ 23,884	$ 916,731
Adoption of GASB Statement No. 34				
Revenue recognition	$ -	$ -	$ 31,714	$ 31,714
Capital assets, net of depreciation	-	415,224	1,988,532	2,403,756
Long-term bonds and notes payable	-	-	(406,490)	(406,490)
Other liabilities and long-term obligations	-	-	(106,870)	(106,870)
Internal service fund conversion	-	54,685	(184,684)	(129,999)
Adoption of GASB Statement No. 34	-	469,909	1,322,202	1,792,111
Total Governmental Activities	$ 807,801	$ 554,955	$ 1,346,086	$ 2,708,842

	June 30, 2001 As Previously Reported	Fund Reclassifications	Prior Period Adjustments	June 30, 2001 As Restated
PROPRIETARY FUNDS AND BUSINESS-TYPE ACTIVITIES				
Major Fund:				
Employment Security	$ -	$ 405,834	$ 1,073	$ 406,907
Non-major Funds:				
Enterprise Funds:				
Alcoholic Beverages	-	-	-	-
Lottery	-	-	-	-
Potato Marketing & Improvement	9,184	-	-	9,184
Seed Potato	719	-	-	719
Airport	5,610	-	541	6,151
Marine Ports	29,136	-	4,873	34,009
Ferry Service	22,417	-	1,047	23,464
Prison	625	-	-	625
Community Industrial Building	(39)	-	-	(39)
Total Enterprise Funds	67,652	-	6,461	74,113
Internal Service Funds	24,094	32,264	(1,673)	54,685
Total Proprietary Funds	$ 91,746	$ 438,098	$ 5,861	$ 535,705
Adoption of GASB Statement No. 34				
Internal service fund conversion	$ -	$ (54,685)	$ -	$ (54,685)
Total Business-Type Activities	$ 91,746	$ 383,413	$ 5,861	$ 481,020
FIDUCIARY FUNDS				
Private Purpose Funds:				
Abandoned Property	$ -	$ 4,105	$ -	$ 4,105
Revenue on Private Purpose Trusts	-	57	-	57
Lands Reserved	-	8,479	-	8,479
Permanent School	-	1,168	-	1,168
Total Private Purpose Funds	-	13,809	-	13,809
Funds previously reported as Expendable Trust Funds:				
Employment Security	405,834	(405,834)	-	-
Abandoned Property	4,105	(4,105)	-	-
Learning Technology	52,727	(52,727)	-	-
Baxter Park	53,567	(53,567)	-	-
Other Trusts	162	(162)	-	-
Total Expendable Trust Funds	516,395	(516,395)	-	-
Funds previously reported as Nonexpendable Trust Funds:				
Baxter Park	4,646	(4,646)	-	-
Lands Reserved	8,478	(8,478)	-	-
Other Trusts	7,433	(7,433)	-	-
Total Nonexpendable Trust Funds	20,557	(20,557)	-	-
Pension Trust Funds	-	7,028,779	-	7,028,779
Total Fiduciary Funds	$ 536,952	$ 6,505,636	$ -	$ 7,042,588
ACCOUNT GROUPS				
General Fixed Assets	$ 415,224	$ (415,224)	$ -	$ -
General Long-Term Obligations	-	-	-	-
Total Account Groups	415,224	(415,224)	-	-
Total Primary Government	$ 1,851,723	$ 7,028,780	$ 1,351,947	$ 10,232,450

		June 30, 2001 As Previously Reported		Fund Reclassifications		Prior Period Adjustments		June 30, 2001 as Restated
DISCRETELY PRESENTED COMPONENT UNITS	$	8,335,403	$	-	$	-	$	8,335,403
Adoption of GASB Statement No. 33,34, and 35:								
Revenue and expense recognition		-		-		(29,493)		(29,493)
Capital assets, net of depreciation		-		-		(5,233)		(5,233)
Fund reclassification		-		(7,028,779)				(7,028,779)
Other		-		-		(5,841)		(5,841
Total Net Assets for Discretely Presented Component Units - restated	$	8,335,403	$	(7,028,779)	$	(40,567)	$	1,266,057

In addition to restatements as a result of implementing GASB Statement No. 34, four significant adjustments were made to restate prior period fund balances. The Highway Fund was decreased by $17.9 million to correct prior period accrued fuel taxes. The Other Special Revenue Fund was increased by $31.8 million to reflect revolving loans funds held by FAME as an agent for the State, $6.1 million to reflect outstanding business and economic development loans receivable, and ($8.3) to reflect a liability for amounts overdrawn from the TANF block grant.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two internal service funds showed deficit Retained Earnings for the fiscal year ended June 30, 2002. The Workers' Compensation Fund was at a deficit of $66.9 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of $2 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State and any national bank or federal savings and loan association located in the State.

The Treasurer may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services and the consent of the Governor. Approved investments include bonds, notes, certificates of indebtedness, other obligations of the United States that mature not more than 24 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months; prime commercial paper; tax-exempt obligations; banker's acceptances; and shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the United States Security Act of 1933, only if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by 5 M.R.S.A. § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investments need not be segregated to the separate trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

With assistance from the Finance Authority of Maine, the Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rates. The Treasurer may invest

up to $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises, and the other $4 million are designated for commercial entities.

Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions. The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned.

No amounts exceeding 25% of the capital, surplus, and undivided profits of any trust company or national bank, or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

DEPOSITS

Deposits with financial institutions are classified by collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are neither collateralized nor insured.

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2002, these exceeded $70 million per month. Until the vendor receives payment, the State retains some liability. The funds in transit were not collateralized during FY 2002 and, because they were not held by the State Treasurer, they are not included in the preceding risk categories.

The following tables categorize the deposits of the primary government and discretely presented component units at the close of fiscal year 2002:

Primary Government Deposits
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 30,685	$ 847	$ 2,799	$ 34,331	$ (26,360)
Cash with Fiscal Agent	-	12,681	12,542	25,223	25,223
Restricted Deposits	71,280	1,130	4,248	76,658	76,658
Total	$ 101,965	$ 14,658	$ 19,589	$ 136,212	$ 75,521

Component Unit Deposits
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 7,262	$ 86,080	$ 14,118	$ 107,460	$ 96,888
Restricted Deposits	69,669	-	-	69,669	69,669
Total	$ 76,931	$ 86,080	$ 14,118	$ 177,129	$ 166,557

INVESTMENTS

Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent, but not in the State's name.

The following table categorizes the investments of the primary government at June 30, 2002:

Primary Government Investments
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash & Cash Equivalents	$ 64,537	$ 951	$ 3,188	$ 68,676
U.S. Government and Agency Obligations	156,390	2,763	11,092	170,245
Commercial Paper	164,306	-	-	164,306
Corporate Bonds and Notes	-	4,262	4,032	8,294
Equity Securities	-	10,533	30,844	41,377
Other Restricted Investments	6,638,146	37,872	-	6,676,018
Totals	$ 7,023,379	$ 56,381	$ 49,156	7,128,916
Unemployment Fund Deposits with US Treasury				441,346
Assets Held in Trust				1,258,896
Total Investments – Primary Government				$ 8,829,158

As reported on the Statement of Net Assets and Statement of Fiduciary Net Assets

	Current Investments	Non-Current Investments	Restricted Investments	Assets Held In Trust	Short Term Investments
Governmental activities	$ 137,213	$ 62,159	$ 68,721	$ -	$ 241,279
Business-type activities	805	474	441,346	-	-
Fiduciary	10,942	-	-	1,258,896	-
Fiduciary- Pension (1)	-	-	6,518,800	-	88,523
	$ 148,960	$ 62,633	$7,028,867	$ 1,258,896	$ 329,802
				Total	$8,829,158

(1) Represents investments of the Maine State Retirement System, a discrete component unit, included with Fiduciary Funds per GASB Statement No. 34.

COMPONENT UNITS

Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

The Maine Educational Loan Authority (MELA) had entered into an interest rate exchange agreement to manage its interest rate exposure on its variable rate education loans. The agreement calls for MELA to receive fixed rate interest payments in exchange for variable market-indexed interest payments. The amounts potentially subject to credit risk are the streams of payments under the agreement and not the notional amount of the contracts. This agreement involves not only the risk of default by the other party, but also the interest rate risk if positions are not matched. MELA does not obtain collateral from the counterparty to secure the amounts subject to credit risks. The notional principal amount of the interest rate swap agreement outstanding at December 31, 2001 was $4.5 million. The termination date of the agreement is December 1, 2006.

At the close of fiscal year 2002, investments of the discretely presented component units were:

Component Unit Investments
(Expressed in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 17,011	$ 25,372	$ 51,588	$ 93,971
U.S. Government and Agency Obligations	189,476	204,215	-	393,691
Repurchase Agreements	255,681	31,799	10,136	297,616
Commercial Paper	33,747	-	25,225	58,972
Corporate Bonds and Notes	13,810	-	-	13,810
Equity Securities	5,203	-	61,682	5,203
Investment Contracts	-	162,438	5,999	168,036
Other	81	-	-	81
Restricted	2,789	-	77,435	80,224
Totals	$ 517,799	$ 423,824	$ 169,983	$1,111,605

The State's internal investment pool consists primarily of commercial paper with maturities of up to 90 days and U.S. Government and Agency obligations with maturities of up to two years. Certain component units also invest in the pool and comprise approximately 22 percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified $36 million of the component units' participation as investments on the State's financials. In addition to the amounts reported, the State Treasurer's Cash Pool includes $34 million, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, classified as current and noncurrent, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government – Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$ 435,332	$ 74,889	$ 1	$ (128,023)	$ 382,199
Highway	20,822	2,068	202	(1,605)	21,487
Federal	-	39,077	-	(96)	38,981
Other Special Revenue	2,509	106,356	10,516	(5,650)	113,731
Nonmajor Governmental	-	-	-	-	-
Total Governmental Funds	458,663	222,390	10,719	(135,374)	556,398
Allowance for uncollectibles	(111,773)	(21,533)	(2,068)		-
Net Receivables	$ 346,890	$ 200,857	$ 8,651		$ 556,398
Proprietary Funds:					
Employment Security	$ -	$ 36,114	$ -	(6,636)	$ 29,478
Nonmajor Enterprise	-	10,265	176	(210)	10,231
Internal Service	-	9,620	183,781	(1)	193,400
Total Proprietary Funds	-	52,999	183,957	(6,847)	233,109
Allowance for Uncollectibles	-	(6,678)	(169)		-
Net Receivables	$ -	$ 49,321	$ 183,788		$ 233,109

Component Units - Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance for Uncollectibles	Net Receivables
Child Development Services System	$ 101	$ -	$ -	$ -	$ 101
Finance Authority of Maine	691	-	28,912	-	29,603
Maine Educational Loan Authority	417	46,542	-	(735)	46,224
Maine Health & Higher Educational Facilities Authority	3,627	917,172	3,175	(1,631)	922,343
Maine Maritime Academy	2,888	3,405	-	(377)	5,916
Maine Municipal Bond Bank	2,021	-	-	-	2,021
Maine State Housing Authority	19,977	1,301,065	-	(12,729)	1,308,313
Maine Technical College System	3,122	-	-	(293)	2,829
Northern New England Passenger Rail Authority	-	-	-	-	-
University of Maine System	28,344	-	37,775	(2,189)	63,930
Total Component Units	61,188	2,268,184	69,862	(17,954)	2,381,280
Allowance for Uncollectibles	(3,879)	(13,671)	(404)		-
Net Receivables	$ 57,309	$ 2,254,513	$ 69,458		$ 2,381,280

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2002 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	General	Highway	Federal Fund	Other Special Revenue	Non-Major Governmental
General	$ 94	$ 1,469	$ 3,086	$ 4,057	$ -
Highway	1	-	-	-	-
Federal	2,364	-	264	28,540	-
Other Special Revenue	102,547	193	15,381	184	-
Non-Major Governmental	-	-	-	-	-
Employment Security	5	-	14	4	-
Non-Major Enterprise	573	-	1	-	-
Internal Service	5,170	2,049	1,956	935	-
Total	$ 110,754	$ 3,711	$ 20,702	$ 33,720	$ -

Due from Other Funds	Employment Security	Non-Major Enterprise	Internal Service	Total
General	$ -	$ 203	$ 691	$ 9,600
Highway	-	-	258	259
Federal	-	-	225	31,393
Other Special Revenue	1,046	7	1,491	120,849
Non-Major Governmental	-	-	-	-
Employment Security	-	5	-	28
Non-Major Enterprise	-	-	-	574
Internal Service	-	125	516	10,751
Total	$ 1,046	$ 340	$ 3,181	$ 173,454

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. The Highway Fund provided $2.2 million to Motor Transport Service (an internal service fund) for amounts needed for priority projects. Various funds owe a total of $1.3 million to the General Fund for operating capital: Alcoholic Beverages (an enterprise fund) $1 million; Department of Environmental Protection (a special revenue fund) $111 thousand; Department of Economic and Community Development (a special revenue fund) $25 thousand; and, Postal Printing & Supply (an internal service fund) $150 thousand.

Intra-entity receivables and payables represent amounts owed to discretely presented component units by the primary government (the State) at the end of the fiscal year. Amounts are owed for undistributed grants and appropriations, outstanding tuition fees, and undistributed accrued shared tax revenues. At the end of fiscal year 2002, receivables and related liabilities between the primary government and the discretely presented component units, disaggregated by fund and component unit, were:

Component Units - Due From/Due To
(Expressed in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government:		
General Fund		
Child Development Services System	$ -	$ 1,085
University of Maine System	-	1,236
Maine Municipal Bond Bank	-	312
Maine Technical College System	-	334
Special Revenue Fund		
Child Development Services System	-	94
University of Maine System	-	5,282
Maine State Housing Authority	-	1,624
Capital Projects Fund		
Maine Technical College System	-	711
Maine Municipal Bond Bank	-	1,330
Component Units:		
Child Development Services System		
General Fund	1,085	-
Special Revenue Fund	94	-
Maine Municipal Bond Bank		
General Fund	312	-
Capital Projects	1,330	-
Maine Technical College System		
General Fund	334	-
Capital Projects	711	
University of Maine System		
General Fund	1,236	-
Special Revenue Fund	5,282	-
Total	$ 10,384	$ 12,008

Receivables and related liabilities between the primary government and the discretely presented component units do not agree because the Maine State Housing Authority has a calendar year end.

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Alcoholic Beverages Fund and the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute. All transfers are made in accordance with statutory authority granted by the Legislature.

Interfund transfers for the year ended June 30, 2002, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transfers from Other Funds				
Transfers to Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Non-Major Governmental**
General	-	$ 101	$ 428	$ 121,212	$ -
Highway	$ 500	-	156	1,954	-
Federal	6,279	1,368	557	6,832	-
Other Special Revenue	27,449	309	13,027		-
Non-Major Governmental	23,592	-	-	5,262	899
Employment Security	-	-	-	-	-
Non-Major Enterprise	62,470	-	-	10,575	-
Internal Service	-	-	-	-	-
Fiduciary	7,836	-	-	677	-
Total	$ 128,126	$ 1,778	$ 14,168	$ 146,512	$ 899

	Transfers from Other Funds				
Transfers to Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$ 3,095	$ -	$ -	$ 124,836
Highway	-	-	-	-	2,610
Federal	314	-	-	-	15,350
Other Special Revenue	-	-	-	-	40,785
Non-Major Governmental	-	-	-	483	30,236
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	-	-	73,045
Internal Service	-	-	-	-	-
Fiduciary	-	-	-	-	8,513
Total	$ 314	$ 3,095	$ -	$ 483	$ 295,375

NOTE 8 - CAPITAL ASSETS

The following schedule details capital asset activity of the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2002:

Primary Government - Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 166,229	$ 115,866	$ 4,195	$ 277,900
Construction in progress	152,737	72,779	198,249	27,267
Infrastructure	-	2,027,179	-	2,027,179
Total capital assets, not being depreciated	318,966	2,215,824	202,444	2,332,346
Capital assets, being depreciated				
Buildings	165,403	246,169	18,769	392,803
Equipment	200,522	36,314	32,228	204,608
Improvements other than buildings	2,772	18,685	4,521	16,936
Total capital assets, being depreciated	368,697	301,168	55,518	614,347
Less accumulated depreciation for:				
Buildings	90,674	14,068	16,305	88,437
Equipment	120,038	30,201	24,083	126,156
Improvements other than buildings	3,830	1,086	-	4,916
Total accumulated depreciation	214,542	45,355	40,388	219,509
Total capital assets being depreciated, net	154,155	255,813	15,130	394,838
Governmental Activities Capital Assets, net	$ 473,121	$ 2,471,637	$ 217,574	$ 2,727,184
Business-Type Activities:		**Net Additions**	**Net Deletions**	
Capital assets, not being depreciated				
Land	$ 5,605	$ 798	$ -	$ 6,403
Construction in progress	6,291	-	4,698	1,593
Total capital assets, not being depreciated	11,896	798	4,698	7,996
Capital assets, being depreciated				
Buildings	11,810	4,568	-	16,378
Equipment	17,080	2,330	-	19,410
Improvements other than buildings	40,185	4,578	-	44,763
Total capital assets, being depreciated	69,075	11,476	-	80,551
Less accumulated depreciation	26,949	2,657	-	29,606
Total capital assets, being depreciated, net	42,126	8,819	-	50,945
Business-Type Activities Capital Assets, net	$ 54,022	$ 9,617	$ 4,698	$ 58,941

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities - Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
General Government	$ 6,250
Economic Development	1,539
Education and Culture	502
Human Services	10,143
Labor	1,742
Natural Resources	4,227
Public Protection	5,577
Transportation	9,397
Total Depreciation Expense – Governmental Activities	$ 39,377

Discretely Presented Component Units
The following table summarizes net capital assets reported by the discretely presented component units (Expressed in Thousands):

Component Unit - Capital Assets
(Expressed in Thousands)

Land	$ 13,524
Buildings	459,478
Equipment	142,989
Improvements other than buildings	45,251
Library books and materials	54,153
Construction in progress	66,590
Total	781,985
Less accumulated depreciation	(326,427)
Capital assets, net – discretely presented component units	$ 455,558

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. The Maine State Retirement System issues a stand-alone financial report.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

At June 30, 2002, the membership consisted of:

Active vested and nonvested members	52,480
Terminated vested participants	2,963
Retirees and benefit recipients	30,122
Total	85,565

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of ten years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the ten-year requirement was reduced to five years by legislative action). The monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6.0 percent.

In the event that a participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity remains liable for contributions sufficient to fund benefits for its already retired former employee-members; for its terminated vested members;

and for those active employees, whether or not vested, who remain contributing System members.

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The total funds managed by the System are constitutionally restricted as held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries. The System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not concur with the accumulated assets representation. Additional disclosures would be necessary to report this as more than one plan in conformity with generally accepted accounting principles.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid by or on behalf of those covered are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company in the amount of benefits paid out and additional payments representing administrative fees.

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 19-year period from June 30, 2000. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers. However, the law was amended in a manner that resulted in no additional contribution from the State budgetary surplus during the fiscal year ended June 30, 2002.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2002 for participating entities are:

State:	
Employees[1]	7.65-8.65%
Employer	12.19-36.35%
Teachers:	
Employees	7.65%
Employer	17.71%
Participating Local Entities:	
Employees	3.0-8.0%
Employer[1]	1.7-6.5%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees or benefit plan options selected by a particular participating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The employer's annual pension cost and net pension obligation to the System for the current year were:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$242,486
Interest on net pension obligation	6,027
Adjustment to annual required contribution	(5,269)
Annual pension cost	243,244
Contributions made	242,486
Increase (decrease) in net pension obligation	758
Net pension obligation beginning of year	75,341
Net pension obligation end of year	$ 76,099

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2002	$ 243,244	99.69%	$ 76,099
2001	254,978	99.57%	75,341
2000	241,189	100.85%	74,243

The annual required contribution for the current year was determined as part of the June 30, 2002 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 19-year period from June 30, 2000. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, Maine State Retirement System, and University of Maine System have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System and the Northern New England Passenger Rail Authority are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

OTHER PLANS

The University of Maine System and the Maine Technical College System also have optional programs with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan. The University of Maine System contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age. The Maine Technical College System contributes 12.88 percent of total salaries for participating employees or 6.04 percent for Maine Educational Association employees.

The Finance Authority of Maine and Child Development Services have Simplified Employee Pension plans. The Maine State Housing Authority has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

The Maine Health and Higher Educational Facilities Authority has a discretionary contributory profit sharing plan and a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(k).

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTH CARE BENEFITS

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 M.R.S.A. § 285, and for a portion of the premiums for teachers, as authorized by 20-A M.R.S.A. § 13451. Pursuant to 5 M.R.S.A., § 285, most retired employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible to participate in the health plan but are not funded by the State. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association, the Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization; supplemental major

medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

The State has been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For fiscal year 2002, state contributions exceeded those necessary on a pay-as-you-go basis but were less than those that would have been required on an actuarial basis. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount (which averaged approximately 6.5% for the calendar years of 2001 and 2002), is generated using a contribution rate, authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 30 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. The State's management proposed funding retiree healthcare benefits in the future using actuarially determined rates.

As of June 30, 2002, there were 6,909 retired eligible State employees and 7,904 retired teachers. In fiscal year 2002, the State paid into the Retiree Health Insurance Fund $33.3 million for retired employees and $6.8 million for retired teachers. Premium charges paid were $23.4 million and $5.6 million, respectively. Overall Net Assets increased by $13.7 million to $49.9 million at June 30, 2002.
The most recent actuarial study, issued for the fiscal year ended July 1, 2002, estimated the liability for current and future retirees at $976.9 million. This includes 14,297 retirees and 40,515 active employees expected to retire in the future.

POST RETIREMENT LIFE INSURANCE BENEFITS
The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2002, claims totaled $2.2 million for retired State employees and $1.3 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 7,956 retired State employees and 5,446 retired teachers.

NOTE 11 - LONG-TERM OBLIGATIONS

Primary Government
The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; compensated employee absences; and, the State's net pension obligation.

GENERAL OBLIGATION BONDS
Programs for which the State issues general obligation bonds include: adaptive equipment loan programs; environmental cleanup and protection; highway and transportation related projects; agricultural and small business job creation; and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds of the primary government during fiscal year 2002 were:

Primary Government - Changes in General Obligation Bonds
(Expressed in Thousands)

	Balance July 1, 2001	Additions	Retirements	Balance June 30, 2002	Due Within One Year
General Obligation Debt:					
General Fund	$ 297,405	$ 27,610	$ 64,225	$ 260,790	$ 63,880
Special Revenue Fund	108,635	-	23,300	85,335	21,215
Self Liquidating	450	-	80	370	70
Total	$ 406,490	$ 27,610	$ 87,605	$ 346,495	$ 85,165

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2002 until maturity, are summarized in the following table:

Future Debt Service on General Obligation Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2003	$ 85,165	$ 16,970	$ 102,135
2004	62,610	12,931	75,541
2005	49,850	9,764	59,614
2006	47,765	7,203	54,968
2007	35,040	4,875	39,915
2008-2012	66,065	6,815	72,880
Total	$ 346,495	$ 58,558	$ 405,053

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2002, general obligation bonds authorized and unissued totaled $212.4 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of $211 million outstanding at any one time except for the issuance of certain revenue refunding securities.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State has included $191.6 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State; and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's), and lease/purchase agreements to finance the construction of certain State buildings and to purchase equipment and vehicles. Certificates of Participation are issued through a trustee, and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt, liability, or contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for

its compensated employee absences and net pension obligation.

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2002:

Primary Government - Changes in Other Long-Term Obligations
(Expressed in Thousands)

	Balance July 1, 2001	Additions	Reductions	Balance June 30, 2002	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 159,320	$ 36,616	$ 4,290	$ 191,646	$ 6,217
COP's and Other Financing Arrangements	18,212	10,850	6,436	22,626	5,017
Compensated Absences	35,672	6,409	3,758	38,323	3,974
Net Pension Obligation	75,341	758	-	76,099	
Total Governmental Activities	$ 288,545	$ 54,633	$ 14,484	$ 328,694	
Business-Type Activities:					
Compensated Absences	$ 516	$ 64	$ 53	$ 526	55
Total Business-Type Activities	$ 516	$ 64	$ 53	$ 526	

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2002 until maturity, are summarized in the following table:

Future Debt Service on COP's and Other Financing Arrangements
(Expressed in Thousands)

Fiscal Year	Governmental Funds	Governmental Facilities Authority	Internal Service Funds
2003	$ 280	$ 15,259	$ 5,523
2004	836	19,959	4,734
2005	681	19,524	3,770
2006	664	19,075	3,493
2007	670	18,624	919
Thereafter	3,361	185,585	645
Total Debt Service	6,492	278,025	19,084
Less: Interest	1,130	86,380	1,820
Total Principal	$ 5,362	$ 191,646	$ 17,264

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $27.6million in Bond Anticipation Notes during fiscal year 2002. At June 30, 2002 there were no outstanding Bond Anticipation Notes.

OBLIGATIONS UNDER CAPITAL LEASES

The State of Maine leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases, which are in substance purchases, are classified as capital leases.

In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception at the lower of fair market value or the present value of the minimum lease payments. The principle portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable, because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-

wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases. Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2002, property acquired under capital leases totaled $49.1 million in the internal service funds, with related accumulated depreciation of $17.2 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases accounted for as operating leases in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State's financial statements.

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2002:

Future Minimum Lease Payments
Capital and Operating Leases
(Expressed in Thousands)

Fiscal Year	Capital Leases	Operating Leases
2003	$ 6,329	$ 2,426
2004	5,638	2,030
2005	4,284	1,637
2006	3,936	936
2007	3,722	218
2008-2012	15,034	555
2013-2017	4,077	120
2018-2022	84	-
Total Minimum Payments	43,104	$ 7,922
Less: Amount Representing Interest	8,999	
Present Value of Future Minimum Payments	$ 34,105	

Component Units

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Purpose	Interest Rates	Amount	Maturity Dates
Maine Health and Higher Educational Facilities Authority	General Resolution	4.95 - 7.55%	$ 52,577	1986 - 2029
	Reserve Fund	2.5 - 6.375%	903,375	1992 - 2031
	Medium Term Financing Reserve Fund	4.0 - 8.25%	2,140	1993 - 2003
	Taxable Reserve Fund	7.03 - 9.34%	52,090	1993 - 2016
Subtotal			1,010,182	
Finance Authority of Maine	Construction Bonds	1.0 %	1,294	2003 - 2025
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.0 - 7.15%	987,894	1991 - 2032
	Sewer and Water Fund Group	2.75 - 7.2%	63,230	1991 - 2028
	Special Obligation Taxable Fund Group	6.1 - 10.25%	1,450	1991 - 2009
Subtotal			1,052,574	
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.1 - 7.75%	64,185	1992 - 2030
Maine State Housing Authority	Mortgage Purchase Program	2.25 - 9.25%	1,402,241	2002 - 2038
	Housing Finance Revenue Program	4.4 - 6.3%	39,500	2002 - 2030
Subtotal			1,441,741	
Maine Maritime Academy	Revenue Bonds and Other Obligations	2.6 – 5.8%	2,803	2003 - 2023
Maine Technical College System	Building Construction Bonds	8.16%	230	2005
University of Maine System	1993 Series A Revenue Bonds	2.3 - 5.2%	7,320	1994 - 2009
	1993 Series B Refunding Bonds	3.15 - 5.5%	12,695	1995 - 2020
	1998 Series A Revenue Bonds	3.95 - 5.0%	26,982	2000 - 2024
	2000 Series A Revenue Bonds	4.5 - 5.75%	38,199	2001 – 2030
Subtotal	2002 Series A Revenue Bonds	2.0 - 5.375%	45,660	2002 - 2012
			130,856	
Total			$3,703,865	

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2002 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	MHHEFA	FAME	MMBB	MELA	MSHA	MMA	MTCS	UMS	Totals
2003	$ 35,417	$ 51	$ 85,732	$ 1,770	$ 23,030	$ 83	$ 85	$ 4,065	$ 150,233
2004	35,417	51	86,197	1,714	30,690	90	85	5,040	159,284
2005	36,083	52	83,828	1,874	36,955	94	60	5,145	164,091
2006	36,331	52	81,746	1,870	43,125	98	-	5,370	168,592
2007	38,236	53	79,910	1,820	42,080	95	-	5,325	167,519
2008-2012	204,974	272	327,851	6,572	241,530	555	-	59,445	841,199
2013-2017	209,125	286	195,566	2,504	307,255	735	-	21,325	736,796
2018-2022	181,140	300	117,409	-	315,325	960	-	14,305	629,439
2023-2027	155,635	177	8,260	12,500	233,490	225	-	6,065	416,352
2028-2032	77,824	-	315	34,000	163,840	-	-	2,500	278,479
2033-2037	-	-	32	-	22,800	-	-	-	22,832
2038-2042	-	-	-	-	450	-	-	-	450
Less amounts deferred or unamortized	-	-	(14,272)	(439)	(18,829)	(132)	-	2,271	(31,401)
Total Principal Payments	$1,010,182	$1,294	$1,052,574	$64,185	$1,441,741	$2,803	$230	$130,856	$3,703,865

NOTE 12 - SELF-INSURANCE

A. Risk Management

The State maintains several types of insurance plans and accounts for them in two funds. The Self-Insurance Internal Service Fund provides insurance advice and services to State governmental agencies, and the State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision; however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professional, and a variety of other insurance products. Not all departments elect to insure through the Risk Management Division. Specifically, the Department of Human Services and the Department of Transportation have elected not to purchase general liability insurance.

In many cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $200 million per occurrence. The State retains $2 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property	$ 200 million	$ 2 million	$ 200 million
Ocean Marine Boat Liability	10 million	10 thousand	10 million
Loss of Software and Data	8 million	25 thousand	8 million
Boiler and Machinery	2 million	5 thousand	2 million
General Liability including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none

In the past, the State had coverage for Employee Bond – Food Stamps. That program is now electronic. The State plans on retaining the risk for Boiler and Machinery after July 3, 2003.

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities represent the estimated cost of claims as of June 30, 2002. This cost of claims includes case reserves, the development of known claims and incurred-but-not-reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At June 30, 2001, $3.2 million was reported as the present value of the estimated claims payable for the State's self-insurance plan. The actuary calculated this based on a 5.5 percent yield on investments. The non-discounted amount was $3.6 million. At June 30, 2002, the State has estimated the range of loss between $3.0 and $3.5 million.

Risk Management Fund
Changes in Claims Payable
(Expressed in Thousands)

	2002	2001
Liability at beginning of year	$3,219	$3,219
Current year claims and changes in estimates	1,529	1,570
Claims payments	1,411	1,570
Liability at end of year	$3,337	$3,219

As of June 30, 2002, fund assets of $16.1 million exceeded fund liabilities of $3.7 million by $12.4 million. The portion of this amount that may be reserved for catastrophic losses has not been determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50 thousand coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400 thousand. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2002.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $717 thousand for the fiscal year ended June 30, 2002.

C. WORKERS' COMPENSATION

Workers' compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation.

Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. The balance of claims liabilities is based on an actuarial study as of June 30, 2001:

Workers' Compensation Fund
Changes in Claims Payable
(Expressed in Thousands)

	2002	2001
Liability at Beginning of Year	$ 75,726	$ 80,371
Current Year Claims and Changes in Estimates	9,170	2,861
Claims Payments	9,170	7,506
Liability at End of Year	$ 75,726	$ 75,726

Based on the actuarial calculation as of June 30, 2001, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $92.3 million. The discounted amount is $75.7 million and was calculated based on a 4.25 percent yield on investments.

D. DISABILITY

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 1,065 confidential employees at June 30, 2002. The liability amount for this benefit cannot be determined.

NOTE 13 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in the Tri-State Lotto Commission (Commission).

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission and each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of ticket sales made by each State.

Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State; Daily Number expenses that are allocated to each State based on Daily Number ticket sales; and certain other miscellaneous costs that are based on actual charges generated by each State.

The Tri-State Lotto Commission financial report for fiscal year 2002, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$ 45,527
Noncurrent Assets	189,345
Total Assets	$ 234,872
Current Liabilities	$ 39,387
Long-term Liabilities	172,646
Total Liabilities	212,033
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment Prize Obligations	17,843
Total Retained Earnings	22,839
Total Liabilities and Retained Earnings	$ 234,872
Total Revenue	$ 80,330
Total Expenses	$ 56,120
Allocation of Funds to Member States	$ 24,587
Increase in Retained Earnings	$ 2,327

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 M.R.S.A. §11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code. By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately $1.2 billion in net assets at June 30, 2002, which have been recorded in an Agency Fund on the financial statements of the State.

In 1999, the Legislature established the Maine Learning Technology Endowment to enable the full integration of appropriate learning technologies into teaching and learning for the State's elementary and secondary students. At June 30, 2002, the value of this fund, invested with the Maine State Retirement System, a discretely presented component unit, was approximately $31 million. The investment and related liability, recorded in the MSRS financial statements, have been eliminated for purposes of including MSRS as a component unit of the State of Maine, as the State has recorded the assets in a special revenue fund in its financial statements.

General Obligation Bonds of the State include $370 thousand of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds, and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine has entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the Reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May 1991.

RELATED ORGANIZATIONS

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2002.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $202.8 million; Child Development Services, $17.8 million; Maine Technical College System, $55.8 million; Maine Municipal Bond Bank, $5.7 million; Finance Authority of Maine, $13.8 million; Maine Maritime Academy, $7.7 million; Maine State Housing Authority, $9.1 million, and Northern New England Passenger Rail Authority, $6.6 million. FAME returned $1.7 million to the State from the Underground Storage revolving loan fund.

The University of Maine Foundation (Foundation) is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University of Maine System (System). Total gifts and income received by the System from the Foundation during the fiscal year ended June 30, 2002 was approximately $4.2 million. The reported fair market value of the Foundation's assets at June 30, 2002 was approximately $101.1 million. In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 39 establishes new criteria for evaluating the need to include the Foundation as a component unit of the System. The Foundation appears to meet these revised criteria and is expected to be included as a component unit in the future.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $41 million at June 30, 2002, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2002, the State expended approximately $2.3 million to FAME for State revolving loan funds.

Title 20-A M.R.S.A. Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2002, FAME paid approximately $6.2 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 M.R.S.A., §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. State expenditures for both municipal landfill closure and remediation projects totaled $441 thousand for fiscal year 2002.

During the 2002 fiscal year, no State general funds were expended for municipal solid waste landfill closure projects, which completed work before January 1, 2000. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills. The Commissioner may make grants or payments up to 30% if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if they are specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP. Consequently, the DEP expects no further expenditures related to municipal landfill closures.

The State expended $441 thousand of general obligation bond funds for municipal solid waste landfill remediation projects during fiscal year 2002. Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. The DEP recognizes that, in the future, post closure investigation and remediation activities may be necessary at landfills that will require State funds. The DEP has estimated the amount of these potential costs to be approximately $1.6 million, based on current site knowledge.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the sand and salt storage program to be $11.2 million through the year 2005. This consists of approximately $4.2 million for State-owned facilities and approximately $7 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2002 fiscal year, $4.26 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2002, amounts encumbered for pollution abatement projects totaled $2.17 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $7.9 million. At

June 30, 2002, DEP estimated the total cost (federal, State, and local) of future projects to be $345 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at three hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco and Ellsworth. The amount or range of potential liability has not been determined.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA §569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200,000 per claimant.

A report to the legislature dated December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation sites as of August 2000 that are covered by the insurance program. At June 30, 2002 there were 454 sites on the long-term remediation priority list. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes approximately 72% of the annual payments. As of June 30, 2002, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $804.3 million.

At June 30, 2002, the Department of Transportation had contractual commitments of approximately $82.5 million for construction of various highway projects. The State's share of that amount is expected to be approximately $15.9 million. Of these amounts, $15.9 million has already been accrued, with the State's share at $5.4 million. Federal and State funds plus bond proceeds are expected to provide funding for these future expenditures.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five jurisdictions agreed to an out-of-court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking-related Medicaid costs. The PM's agreed to pay $206 billion to the states and jurisdictions. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a State statute imposing economic conditions on the PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's have also agreed to pay $8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately $114 million and will be received in ten annual payments beginning in 2008.

The State received $56.3 million dollars from PM's during fiscal year 2002, and has accrued an additional $55.8 million as receivable at June 30, 2002.

DISCRETELY PRESENTED COMPONENT UNITS

NURSING HOME LOANS

The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), have begun refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing the overall exposure. In 2002, HUD completed refinancings for seven institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $30.8 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these seven institutions from its operating fund. These notes totaled $3.2 million at June 30, 2002, earn interest only to the extent that cash payments are received and are subordinate to all HUD loans. Should these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

Management of the Authority expects that the owners of two other facilities, with combined loans and advances due the Authority of approximately $13.4 million at June 30, 2002, will complete refinancings during fiscal 2003. If the anticipated refinancings are not completed, it is likely that a number of nursing

homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to the subordinated notes receivable from the seven institutions described above, the Authority has advanced approximately $2.8 million from the operating fund as of June 30, 2002, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately $28.2 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a $1.6 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by a resident Maine veteran. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2002, loans outstanding pursuant to these authorizations are $42.1 million, less than $1 million, and less than $1 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2002.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2002.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds.

On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then-current State fiscal year.

These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding Moral Obligations:

Moral Obligation Bonds
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational Facilities Authority	$ 957,605	$ 87,018	no limit	22 MRSA § 2075
Finance Authority of Maine	210,906	36,441	1,010,000	10 MRSA § 1032, 1053
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine Municipal Bond Bank	1,066,846	124,104	no limit	30-A MRSA § 6006
Maine Educational Loan Authority	44,565	2,099	50,000	20-A MRSA § 11424
Maine State Housing Authority	1,458,301	120,870	1,650,000	30-A MRSA § 4906
Total	$ 3,738,223	$370,532		

NOTE 16 - LITIGATION

The State of Maine, its units and its employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The following cases have the potential for liability in excess of $1 million. The Attorney General cannot predict in which of the cases there is a higher or lower probability of paying out the full amounts sought. Even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, the State could incur a large judgment.

Moody v. Maine State Lottery. Plaintiff claims that the Maine State Lottery has engaged in breach of contract and fraud regarding the "Wild Card Cash" instant ticket game. Plaintiff believes the case is worth millions of dollars. A motion to Dismiss is pending. The Attorney General does not believe that the likelihood of success on a claim of over $1 million is high.

Levier v. Scarborough. This is a suit in federal court brought by the representative of the Estate of James Levier who was killed as a result of gunfire from local and State policemen. Plaintiff has sought $1 million or more. The matter is presently in discovery. The Attorney General expects motions for summary judgment to be filed and does not believe that an assessment of the likelihood of success of this claim is appropriate at this stage.

Michael T. v Magnuson. This is a civil rights case in which the attorneys for Plaintiff are seeking a settlement approaching $1 million. This is a prisoner's rights case, and the Attorney General does not believe that any recovery of $1 million or more is likely.

AJC v. BDS and DHS. This case involves a contract claim brought by a service provider suggesting that the State interfered with its ability to contract. The demand exceeds $1 million. The Attorney General is at the early stages of this litigation; therefore it is not possible to fully assess the likelihood of success.

Diaz Corporation v. MDOT. This case involves an outstanding claim against the Department of Transportation for $2.2 million with a medium probability of success for the Plaintiff and a possible loss of $1.1 million to the Department of Transportation.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million.

Numerous workers' compensation claims are now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

In addition to the foregoing, various other suits are pending against the State, State agencies and State officials involving damages or other potential costs. Since the amounts sought are less than $1 million, these suits have not been individually identified.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

NOTE 17 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On July 2, 2002, October 1, 2002, January 2, 2003 and April 1, 2003, the State issued $21.2 million, $34.8 million, $17.3 million, and $23.6 million respectively of Bond Anticipation Notes. The BAN's will mature on June 26, 2003.

On August 6, 2002, the State issued $250 million of Tax Anticipation Notes which will become due on June 30, 2003.

On April 9, 2003, the State issued $2.2 million of Certificates of Participation to purchase vehicles through its Central Fleet Management Internal Service Fund.

Chapter 20 PL 2003 amended 5 MRSA 17151 such that the unfunded liability attributable to state employees and teachers must be retired in no more than 25 years from June 30, 2003. It had previously been 19 years from June 30, 2000.

COMPONENT UNITS

On January 8, 2002, the Maine State Housing Authority (MSHA) issued $8 million of its 2001 Series G bonds. The bonds carry interest rates ranging from 5.4% to 5.5% and maturities from 2012 – 2031. On March 12, 2002, MSHA issued $30 million of its 2002 Series A bonds. The bonds carry interest rates ranging from 2.8% to 5.4% and maturities from 2004 – 2032. On March 20, 2002, and April 5, 2002 MSHA also redeemed, at par, $53.2 million, of its Mortgage Purchase Program and Housing Finance Revenue Program bonds with interest rates between 4.65% - 9.25% and maturities from 2006 – 2035.

On August 8, 2002, the Bond Bank issued $49.3 million of 2002 Series D Refunding Bonds to advance refund certain maturities of the Bond Bank's bonds, aggregating $47.6 million. The refunding reduced total debt service payments through 2015 by approximately $4.9 million.

As a result of legislation, members of the Maine Educational Loan Authority (MELA) conducted a study, performed by an independent third party, concerning whether changes to the structure and governance of MELA should be made. The final report, issued early in 2001, recommends that MELA continue to operate as a separate agency, continue the supplemental education loan program funded through tax-exempt bonds, and solicit proposals for an administrative services contract. Members of MELA do not expect the results of the study and any recommendations to significantly impact the loan program or the operations of MELA in the foreseeable future.

On July 1, 2002, the Maine Health and Higher Educational Facilities Authority (MHHEFA) issued $56 million of 2002A Series and $8 million of 2002B Series Revenue Bonds from the Reserve Fund. The bonds mature in 2003 - 2032 and carry interest rates ranging from 3.00% - 5.125%. The bonds are secured by loans made to institutions within the State of Maine.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues								
Taxes	$ 2,390,281	$ 2,328,377	$ 2,220,306	$ (108,071)	$ 179,876	$ 179,876	$ 184,733	$ 4,857
Assessments and Other	61,344	61,100	62,415	1,315	82,623	83,537	88,657	5,119
Federal Grants	12,818	19,880	21,593	1,713	-	-	-	-
Service Charges	22,671	25,862	28,218	2,356	5,904	5,934	5,696	(238)
Income from Investments	22,000	5,729	3,830	(1,899)	3,000	3,000	2,857	(143)
Miscellaneous Revenue	14,583	15,570	17,569	1,999	-	990	4,013	3,023
Total Revenues	2,523,697	2,456,518	2,353,931	(102,587)	271,404	273,338	285,956	12,618
Expenditures								
General Government	365,048	373,971	360,147	13,824	28,305	35,912	30,562	5,351
Economic Development	62,551	69,503	66,129	3,374	-	-	-	-
Education and Culture	1,157,034	1,166,905	1,157,222	9,683	-	-	-	-
Human Services	926,070	929,457	898,413	31,044	-	-	-	-
Labor	16,140	17,502	15,001	2,501	-	-	-	-
Natural Resources	54,469	55,659	51,703	3,956	48	48	39	9
Public Protection	25,782	27,332	24,849	2,483	25,827	27,183	25,507	1,676
Transportation	4,435	14,846	12,281	2,565	239,484	310,557	241,542	69,015
Total Expenditures	2,611,529	2,655,175	2,585,745	69,430	293,663	373,700	297,650	76,050
Revenues Over (Under) Expenditures	(87,832)	(198,657)	(231,814)	(33,157)	(22,260)	(100,362)	(11,694)	88,668
Other Financing Sources (Uses)								
Operating Transfers Net	(45,543)	(3,793)	4,866	8,659	159	(831)	(831)	-
Other Budgeted Resources	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	(45,543)	(3,793)	4,866	8,659	159	(831)	(831)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (133,375)	$ (202,450)	(226,948)	$ (24,498)	$ (22,101)	$ (101,194)	(12,525)	$ 88,668
Fund Balances at Beginning of Year (As Restated)			365,562				130,654	
Fund Balances at End of Year			$ 138,614				$ 118,129	

Federal Fund				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance With Final Budget	Original Budget	Final Budget	Actual	Variance With Final Budget
$ -	$ -	$ 3	$ 3	$ 62,066	$ 64,737	$ 71,374	$ 6,637
-	23	80	56	75,673	79,140	64,968	(14,172)
1,726,364	1,955,733	1,674,743	(280,990)	26,396	27,182	4,786	(22,396)
827	1,603	6,560	4,957	76,024	89,091	79,130	(9,961)
-	-	2,296	2,296	5,859	5,979	2,460	(3,519)
15,133	5,282	6,317	1,035	178,046	199,812	185,107	(14,704)
1,742,324	1,962,642	1,689,998	(272,644)	424,064	465,940	407,826	(58,115)
12,196	13,778	9,687	4,091	152,907	179,079	157,715	21,364
38,892	45,007	22,155	22,852	56,071	62,695	48,199	14,496
100,856	153,765	128,221	25,544	2,400	6,370	3,869	2,501
1,278,014	1,380,746	1,235,448	145,298	234,772	248,412	214,255	34,157
91,015	104,918	74,901	30,017	5,959	6,479	3,324	3,155
24,680	40,018	22,471	17,547	62,169	76,522	55,307	21,215
33,624	64,637	35,064	29,573	19,091	29,067	22,735	6,332
204,639	208,022	157,532	50,490	14,500	17,674	11,013	6,661
1,783,917	2,010,891	1,685,480	325,411	547,868	626,297	516,417	109,881
(41,593)	(48,250)	4,518	52,768	(123,804)	(160,357)	(108,591)	51,766
(1,094)	(1,322)	(1,181)	141	108,983	97,819	86,295	(11,524)
-	-	-	-	-	-	-	-
(1,094)	(1,322)	(1,181)	141	108,983	97,819	86,295	(11,524)
$ (42,686)	$ (49,572)	3,337	$ 52,909	$ (14,821)	$ (62,538)	(22,296)	$ 40,242
		(15,673)				300,629	
		$ (12,336)				$ 278,333	

STATE OF MAINE
BUDGET-TO-GAAP RECONCILIATION
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2002
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 138,614	$ 118,129	$ (12,336)	$ 278,333
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	138,558	143	-	141
Intergovernmental Receivables	-	-	(37,048)	-
Other Receivables	20,395	(11,585)	-	45,877
Due from Other Funds	7,656	256	9,821	435
Other Assets	5,754	3,722	(3,836)	6,355
Deferred Revenues	(35,459)	(4,350)	-	-
Total Revenue Accruals/Adjustments	136,904	(11,814)	(31,063)	52,808
Expenditure Accruals/Adjustments:				
Accounts Payable	(108,261)	(15,041)	72,770	(22,943)
Due to Component Units	(3,293)	(324)	(4,538)	(2,138)
Accrued Liabilities	(19,245)	(6,436)	-	(6,357)
Due to Other Funds	(8,488)	(3,711)	(3,997)	(33,720)
Tax Refunds Payable	(115,904)	-	-	-
Total Expenditure Accruals/Adjustments	(255,192)	(25,512)	64,235	(65,158)
Fund Balances - GAAP Basis	$ 20,326	$ 80,803	$ 20,836	$ 265,983

Statutory/Budgetary Presentation

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds. (Note 2 of the basic financial statements identifies the annually budgeted operating funds.)

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2001-2002, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 4, 2001, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of June 4, 2002, rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2002	5,920,475,637	8,511,834,626	2,591,358,989	69.6%	1,413,262,420	183.4%
June 30, 2001	5,844,838,370	7,997,931,582	2,153,093,212	73.1%	1,326,375,573	162.3%
June 30, 2000	5,528,795,711	7,491,075,545	1,962,279,834	73.8%	1,271,009,158	154.4%
June 30, 1999	4,881,389,092	7,053,934,465	2,172,545,373	69.2%	1,209,804,594	179.6%
June 30, 1998	4,325,864,097	6,706,620,132	2,380,756,055	64.5%	1,165,614,285	204.2%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2002	242,486,089	242,486,089	100.0%
2001	247,526,221	247,526,221	100.0%
2000	232,878,658	236,878,658	101.7%
1999	246,155,629	268,001,527	108.9%
1998	218,506,594	239,915,051	109.8%

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2002	1,692,033,523	1,377,659,381	(314,374,142)	122.8%	268,161,476	-117.2%
June 30, 2001	1,544,720,492	1,427,090,054	(117,630,438)	108.2%	254,155,180	-46.3%
June 30, 2000	1,498,729,722	1,351,640,782	(147,088,940)	110.9%	244,163,272	-60.2%
June 30, 1999	1,354,840,239	1,278,819,201	(76,021,038)	105.9%	233,507,942	-32.6%
June 30, 1998	1,066,810,947	1,147,652,930	80,841,983	93.0%	223,525,533	36.2%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2002	10,017,340	173,065,194	100.0%
2001	17,122,717	17,122,717	100.0%
2000	13,433,467	13,433,467	100.0%
1999	23,475,495	23,475,495	100.0%
1998	27,355,304	27,355,304	100.0%

Basis of Presentation

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for State employees, teachers, judicial and legislative employees.

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2002, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll). Under this method the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

Experience gains and losses, i.e., decreases or increases in liabilities when actual experience differs from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Asset Valuation Method

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the “expected market value.” For purposes of this calculation, the “expected market value” is the preceding fiscal year’s actuarial asset value, adjusted for the current fiscal year’s cash flows with interest accumulated at the actuarial assumed rate of return on investments.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over a 19 year closed period from June 30, 2000.

During fiscal year 2002, various PLD’s contributed approximately $163,000,000 to decrease their initial unpooled unfunded actuarial liability.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2002 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 5.5%)

Mortality Rates – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retirees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table;

All disability benefit recipients who begin to receive benefits in 2000 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 4% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2002 and 2001, the net assets held in trust for group life insurance benefits were $36.6 million and $35.2 million, respectively. At June 30, 2002 and 2001, the plan had the following actuarially determined liabilities:

	(In millions) 2002	2001
Actuarial Liabilities:		
Active Members	$ 40.3	$ 36.4
Retired Members	42.9	43.1
Total	$ 83.2	$ 79.5

Required Supplementary Information – Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructures assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include approximately 8,698 highway miles or 17,664 lane miles of roads and approximately 2,960 bridges having a total deck area of 11.10 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Roads

Measurement Scale for Highways

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A "Built" road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. "Unbuilt" (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility's AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Assessed Conditions
The following table shows the adequacy ratings for maintenance levels from Excellent to Poor. It is the Department's intent to keep the highway system at a level considered fair or better.

Highway Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13%)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Budgeted and Estimated Costs to Maintain
The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions). DOT did not collect estimated information in this format for earlier years.

Fiscal Year	Estimated Spending	Actual Spending
2003	$ 36	$ -
2002	-	41.4
2001	-	29.4
2000	-	28.9
1999	-	24.5
1998	-	16.4

It is the Department's goal to maintain an adequacy rating of 60 or higher for both highways and bridges. In FY 2002, the Department achieved adequacy ratings of 76.6 for highways, and 77.0 for bridges. Chapter 38, P&S 2001, authorized $61 million of transportation bonds for improvements to highways and bridges.

STATE OF MAINE

DEPARTMENT OF AUDIT

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

GAIL M. CHASE, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DIRECTOR OF AUDITS
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDITS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the State of Maine, as of and for the year ended June 30, 2002, and have issued our report thereon dated April 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority and the Maine Governmental Facilities Authority were audited in accordance with auditing standards generally accepted in the United States but not in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated April 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable

conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-01 through 02-22.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-01, 02-09 and 02-12 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the State of Maine in a separate letter dated April 30, 2003.

This report is intended solely for the information and use of management, the Legislature and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor

April 30, 2003

STATE OF MAINE

DEPARTMENT OF AUDIT

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2002. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's basic financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Educational Facilities Authority, the Maine Municipal Bond Bank, the Northern New England Passenger Rail Authority, and the Child Development Services System. The federal awards that these component units received are not included in the supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2002. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our

opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

As described in items 02-40 and 02-41 in the accompanying schedule of findings and questioned costs, the State of Maine did not comply with requirements regarding eligibility that are applicable to its Title IV-E Adoption Assistance and Foster Care programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 02-23, 02-24, 02-26, 02-28, 02-33, 02-36, 02-39 through 02-42, 02-45, 02-46, 02-48 through 02-50, 02-52, 02-55 through 02-57, 02-59, 02-61, 02-65, 02-68 through 02-70, 02-75 and 02-92.

Internal Control Over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

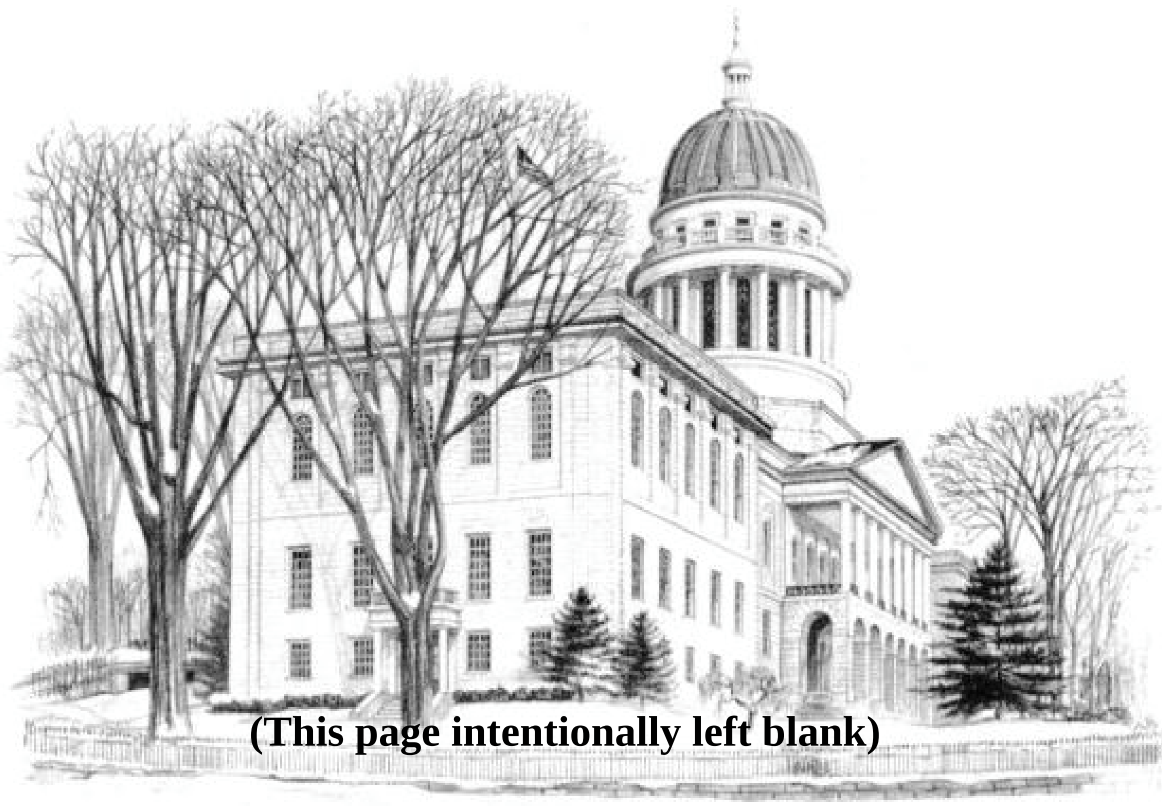
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-14, 02-25, 02-27, 02-29, 02-30 through 02-32, 02-34 through 02-44, 02-46 through 02-68, and 02-70 through 02- 91.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not

necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 02-39, 02-40, 02-41 and 02-77 to be material weaknesses.

This report is intended solely for the information and use of management, the Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor
April 30, 2003



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State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
U.S. Department of Agriculture					
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	10,350	
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	354	
Agricultural Marketing Service	10.156	Federal-State Marketing Improvement Program	Agriculture	757	
Agricultural Marketing Service	10.162	Inspection Grading & Standardization	Agriculture	557,235	
Agricultural Marketing Service	10.163	Market Protection and Promotion	Agriculture	16,105	
Risk Management Agency	10.450	Crop Insurance	Agriculture	66,431	
Food & Nutrition Service	10.550	Food Donation	Education	2,966,985	
Food & Nutrition Service	10.557	Special Supplemental Nutrition Program for WIC	Human Services	10,744,504	**
Food & Nutrition Service	10.558	Child and Adult Care Food Program	Human Services	8,825,691	
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	279,228	
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	435,343	
Food & Nutrition Service	10.570	Nutrition Services Incentive	Human Services	991,266	
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program	Human Services	16,624	
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	82,711	
Food & Nutrition Service	10.576	Seniors Farmers' Market Nutrition Pilot Program	Agriculture	908,620	
Forest Service	10.652	Forestry Research	Conservation	143,758	
Forest Service	10.664	Cooperative Forestry Assistance	Conservation	4,874,437	
Food & Nutrition Service	10.750	USDA Outreach for Low Income Elderly	Human Services	78,967	
Rural Housing Service	10.766	Community Facilities Loans and Grants	Defense	139,087	
National Resources Conservation Service	10.913	Farmland Protection Program	Agriculture	189,710	
Forest Service	10.999	Forest Legacy	Conservation	148,000	
Food & Nutrition Service	10.999	School Breakfast, Lunch and Milk Programs	Education	13,956	
Food Stamp Cluster					
Food & Nutrition Service	10.551	Food Stamps	Human Services	95,706,810	**
Food & Nutrition Service	10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	9,099,372	**
Child Nutrition Cluster					
Food & Nutrition Service	10.553	School Breakfast Program	Education	4,119,432	**
Food & Nutrition Service	10.555	National School Lunch Program	Education	18,726,816	**
Food & Nutrition Service	10.556	Special Milk Program for Children	Education	135,393	**
Food & Nutrition Service	10.559	Summer Food Service Program for Children	Education	733,923	**
Emergency Food Assistance Cluster					
Food & Nutrition Service	10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	189,803	
Food & Nutrition Services	10.569	Emergency Food Assistance Program (Commodities)	Agriculture	2,154,777	
Total U.S. Department of Agriculture Federal Programs				162,356,446	
U.S. Department of Commerce					
Economic Development Administration	11.302	Economic Development: Support for Planning Organizations	Economic Devel	7,148	
Economic Development Administration	11.307	Economic Adjustment Assistance	Marine Resource	39	
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	57,170	
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	160,294	
National Oceanic & Atmospheric Administration	11.417	Sea Grant Support	Marine Resource	445	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	2,022,695	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Marine Resource	285,842	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Environment	662,902	
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	17,685	
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	495,072	
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Marine Resource	134,292	
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	238,100	
National Oceanic & Atmospheric Administration	11.999	Testing Bycatch in an Observer-based Experimtl Shrimp Fishery	Marine Resource	23,984	
National Oceanic & Atmospheric Administration	11.999	Developing a Whiting Fishery in the Gulf of Maine	Marine Resource	136,811	
National Oceanic & Atmospheric Administration	11.999	Gulf of Maine Inshore Trawl Survey	Marine Resource	378,503	
National Oceanic & Atmospheric Administration	11.999	Assess the Status - Shortnose Sturgeon in the Kennebec River	Marine Resource	8,247	
National Oceanic & Atmospheric Administration	11.999	Study the Role of Seals in the Escapement of Atlantic Salmon	Marine Resource	6,099	
National Oceanic & Atmospheric Administration	11.999	Protected Resources Division (EA1330-02-CN-005)	Marine Resource	50,434	
National Oceanic & Atmospheric Administration	11.999	Protected Resources Division (NA96FL0278)	Marine Resource	67,202	
National Oceanic & Atmospheric Administration	11.999	State of Maine Large Whale Take Reduction Plan	Marine Resource	36,917	
National Oceanic & Atmospheric Administration	11.999	Gulf of Maine Ocean Quahog Assessment	Marine Resource	8,110	
Total U.S. Department of Commerce Federal Programs				4,797,991	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
U.S. Department of Defense					
Office of the Chief of Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	599,066	
Office Naval Research	12.300	Basic and Applied Scientific Research	Marine Resource	3,069	
National Guard Bureau	12.400	Military Construction National Guard	Defense	422,787	
National Guard Bureau	12.401	National Guard Military Operations & Maintenance Projects	Defense	8,744,079	**
National Guard Bureau	12.404	National Guard Civilian Youth Opportunities	Defense	183,886	
National Guard Bureau	12.999	Readiness Sustainment Maintenance Center	Defense	12,602,177	**
Total U.S. Department of Defense Federal Programs				22,555,064	
U.S. Department of Housing & Urban Development					
Community Planning & Development	14.228	Community Development Block Grants / State's Program	Economic Devel	16,037,144	
Community Planning & Development	14.235	Supportive Housing Program	Behavioral Services	125,634	
Community Planning & Development	14.238	Shelter Plus Care	Behavioral Services	2,624,757	
Community Planning & Development	14.250	Rural Housing and Economic Development	Economic Devel	291,546	
Total U.S. Department of Housing & Urban Development Federal Programs				19,079,081	
U.S. Department of the Interior					
Fish & Wildlife Service	15.612	Rare & Endangered Species Conservation	Inland Fisheries	175,787	
Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	6,787	
Fish & Wildlife Service	15.616	Clean Vessel Act	Environment	261,806	
Fish & Wildlife Service	15.622	Sportfishing and Boating Safety Act	Transportation	9,045	
Fish & Wildlife Service	15.623	North American Wetlands Conservation Act	Inland Fisheries	100,000	
Fish & Wildlife Service	15.625	Conservation & Reinvestment Act Fund	Conservation	11,229	
Geological Survey	15.808	Research and Data Acquisition	Marine Resource	11,792	
Geological Survey	15.808	Research and Data Acquisition	Financial Services	61,783	
Geological Survey	15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	81,279	
National Park Service	15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	596,910	
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	2,558,386	**
National Park Service	15.999	Cooperative Agreement	Environment	3,726	
Fish & Wildlife Service	15.999	Cooperative Agreement	Salmon Comm	43,008	
Fish & Wildlife Service	15.999	Atlantic Salmon Management Project	Salmon Comm	404,831	
Fish and Wildlife Cluster					
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Marine Resource	496,123	
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Inland Fisheries	1,619,190	
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	2,117,986	
Total U.S. Department of the Interior Federal Programs				8,559,668	
U.S. Department of Justice					
Drug Enforcement Administration	16.005	Public Education on Drug Abuse: Information	Public Safety	65,969	
Office of Justice Programs	16.007	State Domestic Preparedness Equipment Support Program	Defense	37,500	
Office of Justice Programs	16.007	State Domestic Preparedness Equipment Support Program	Public Safety	4,985	
Office of Justice Programs	16.510	Maine Statistical Analysis Center	Corrections	42,007	
Office of Juvenile Justice & Delinquency Prevention	16.523	Juvenile Accountability Incentive Block Grants	Corrections	1,930,022	
Office of Juvenile Justice & Delinquency Prevention	16.523	Juvenile Accountability Incentive Block Grants	Judicial	452,722	
Office of Juvenile Justice & Delinquency Prevention	16.541	Juvenile Justice & Delinquency Prevention: Special Emphasis	Corrections	989,487	
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	756,790	
Office of Justice Programs	16.575	Crime Victim Assistance	Human Services	2,201,434	
Office of Justice Programs	16.576	Crime Victim Compensation	Attorney General	51,765	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Public Safety	3,155,097	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Attorney General	595,778	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Corrections	67,649	
Corrections Program Office	16.586	Violent Offender Incarceration & Truth in Sentencing Grants	Corrections	2,119,805	
Office of Justice Programs	16.588	Violence Against Women Formula Grants	Public Safety	995,876	
Office of Justice Programs	16.588	Violence Against Women Formula Grants	Attorney General	131,603	
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	315,314	
Office of Justice Programs	16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	1,020	
Office of Justice Programs	16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	318,099	

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
Bureau of Justice Assistance	16.606	State Criminal Alien Assistance Program	Corrections	68,770	
Bureau of Justice Assistance	16.607	Bulletproof Vest Partnership Program	Public Safety	(933)	
Bureau of Justice Assistance	16.607	Bulletproof Vest Partnership Program	Financial Services	13,539	
Office of Community Oriented Policing Services	16.710	Public Safety Partnership and Community Policing Grants	Public Safety	241,761	
Office of Juvenile Justice & Delinquency Prevention	16.727	Enforcing Underage Drinking Laws Program	Behavioral Services	838,957	
Office of Justice Programs	16.730	Reduction and Prevention of Children's Exposure to Violence	Human Services	717,681	
Office of Justice Programs	16.733	National Incident Based Reporting System	Public Safety	239,671	
Office of Justice Programs	16.999	Gender Equity Project	Corrections	19,843	
Pass Through Federal Programs					
Office of Justice Programs (through Cumberland County, Maine)	16.588	Violence Against Women Formula Grant	Attorney General	22,817	
Office of Justice Programs (through Hancock County, Maine)	16.588	Violence Against Women Formula Grant	Attorney General	666	
Total U.S. Department of Justice Federal Programs				16,395,696	
U.S. Department of Labor					
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	1,085,243	
Bureau of Labor Statistics	17.005	Compensation and Working Conditions	Labor	65,547	
Employment & Training Administration	17.202	Certif. of Foreign Workers for Temp. Agricultural Employment	Labor	308,406	
Employment & Training Administration	17.225	Unemployment Insurance	Labor	149,001,258	**
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	522,149	
Employment & Training Administration	17.245	Trade Adjustment Assistance: Workers	Labor	3,292,407	
Employment & Training Administration	17.246	Employment & Training Assistance Dislocated Workers	Labor	1,071,804	
Employment & Training Administration	17.249	Employment Services & Job Training - Pilot Programs	Labor	98,619	
Employment & Training Administration	17.250	Job Training Partnership Act	Labor	146,563	
Employment & Training Administration	17.253	Welfare-to-Work Grants to States & Localities	Labor	843,571	
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	424,913	
Mine Safety & Health Administration	17.600	Mine Health and Safety Grants	Labor	32,848	
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans' Employment Program	Labor	640,000	
Department of Labor Trust Funds	17.999	Reed Act	Labor	637,564	
Employment Services Cluster					
Employment & Training Administration	17.207	Employment Service	Labor	5,907,106	**
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.801	Disabled Veterans' Outreach Program	Labor	394,340	**
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.804	Local Veterans' Employment Representative Programs	Labor	473,959	**
WIA CLUSTER					
Employment & Training Administration	17.258	WIA Adult Program	Labor	3,423,560	**
Employment & Training Administration	17.259	WIA Youth Activities	Labor	4,183,270	**
Employment & Training Administration	17.260	WIA Dislocated Workers	Labor	5,628,450	**
Total U.S. Department of Labor Federal Programs				178,181,577	
U.S. Department of Transportation					
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	480,657	
Federal Aviation Administration	20.106	Airport Improvement Program	Transportation	359,434	
Federal Highway Administration	20.205	Highway Planning and Construction	Transportation	140,675,366	**
Federal Motor Carrier Safety Administration	20.218	National Motor Carrier Safety	State	98,500	
Federal Highway Administration	20.218	National Motor Carrier Safety	Financial Services	4,902	
Federal Highway Administration	20.219	Recreational Trails Program	Conservation	377,359	
Federal Transit Administration	20.505	Federal Transit: Metropolitan Planning Grants	Transportation	223,193	
Federal Transit Administration	20.509	Formula Grants for Other Than Urbanized Areas	Transportation	2,394,235	
Federal Transit Administration	20.513	Capital Assist. Prog. for Elderly Persons & Disabled Persons	Transportation	154,693	
Federal Transit Administration	20.514	Transit Planning and Research	Transportation	981,009	
Research and Special Programs Administration	20.714	National Pipeline Mapping System	Financial Services	9,531	
Federal Transit Cluster					
Federal Transit Administration	20.500	Federal Transit: Capital Investment Grants	Transportation	699,795	
Federal Transit Administration	20.507	Federal Transit: Formula Grants	Transportation	777,968	
Highway Safety Cluster					
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Public Utilities	37,018	
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Public Safety	2,041,735	

Federal Department Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Human Services	138,487	
Federal Transit Administration	20.604	Safety Incentive Grants for Use of Seatbelts	Public Safety	319,329	
Total U.S. Department of Transportation Federal Programs				149,773,211	
Equal Employment Opportunity Commission					
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy. Contracts	Human Rights	227,709	
Total Equal Employment Opportunity Commission Federal Programs				227,709	
General Services Administration					
Office of the Secretary	39.003	Donation of Federal Surplus Personal Property	Financial Services	2,280,582	
Total General Service Administration Federal Programs				2,280,582	
National Foundation on the Arts & the Humanities					
National Endowment for the Arts	45.025	Promotion of the Arts: Partnership Agreements	Arts Commission	513,399	
National Endowment for the Arts	45.026	Promotion of the Arts: Leadership Initiatives	Arts Commission	40,000	
National Endowment for the Humanities	45.149	Promotion of the Humanities: Division of Preservation & Access	State Museum	54,086	
Office of Museum Services	45.301	Institute of Museum and Library Services	State Museum	58,571	
Total National Foundation on the Arts & the Humanities Federal Programs				666,056	
U.S. Department of Veterans Affairs					
Veterans Benefits Administration	64.101	Burial Expenses Allowance for Veterans	Defense	22,806	
National Cemetery Administration	64.203	State Cemetery Grants	Defense	334,348	
Total U.S. Department of Veterans Affairs Federal Programs				357,154	
U.S. Environmental Protection Agency					
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	220,429	
Office of Water	66.419	Water Pollution Control: State and Interstate Program Support	Human Services	2,758	
Office of Water	66.420	Water Pollution Control: State and Local Manpower Development	Environment	35,152	
Office of Water	66.432	State Public Water System Supervision	Human Services	649,407	
Office of Water	66.454	Water Quality Management Planning	Environment	64,548	
Office of Water	66.460	Nonpoint Source Implementation Grants	Environment	66,463	
Office of Water	66.461	Wetland Program Development Grants	Environment	552	
Office of Water	66.461	Wetland Program Development Grants	State Planning	215,347	
Office of Water	66.461	Wetland Program Development Grants	Conservation	9,477	
Office of Water	66.463	Water Quality Cooperative Agreements	Environment	77,191	
Office of Ground Water & Drinking Water	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Conservation	14,051	
Office of Ground Water & Drinking Water	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Human Services	898,839	
Office of Water	66.472	Beach Monitoring & Notification Program Development Grants	State Planning	15	
Office of Administration	66.605	Performance Partnership Grants	Environment	6,398,910	**
Office of Administration	66.605	Performance Partnership Grants	Agriculture	546,570	**
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	403,647	
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	State Planning	30,000	
Office of Environmental Information	66.608	State Information Grants	Environment	43,944	
Office of Enforcement & Compliance Assurance	66.700	Consolidated Pesticide Enforcement Cooperative Agreements	Agriculture	9,991	
Office of Prevention, Pesticides, Toxic Substances	66.707	TSCA Title IV State Lead Grants: Cert of Lead-Based Paint Prof.	Environment	31,133	
Office of Prevention, Pesticides, Toxic Substances	66.708	Pollution Prevention Grants Program	Environment	26,231	
Office of Enforcement & Compliance Assurance	66.709	Capacity Bldg. Grants & Coop. Agreements for States & Tribes	Environment	2,853	
Office of Solid Waste & Emergency Response	66.802	Superfund State Site: Specific Cooperative Agreements	Environment	239,089	
Office of Solid Waste & Emergency Response	66.804	State and Tribal Underground Storage Tanks Program	Environment	(24,300)	
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund	Environment	607,518	
Office of Solid Waste & Emergency Response	66.809	Early Learning Fund	Environment	326,740	
Office of Solid Waste & Emergency Response	66.810	CEPP Technical Assistance Grants Program	Environment	322	
Office of Solid Waste & Emergency Response	66.811	Brownfield Pilots Cooperative Agreement	State Planning	69,707	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
Office of Administration	66.999	Solid Waste Disposal Act	Environment	(77)	
Office of Administration	66.999	EPA Home Town Maine	State Planning	39,776	
Office of Administration	66.999	State Commodity Assistance Program	Agriculture	39,930	
Office of Administration	66.999	Specialty Crops-Base State Grants & Value of Production Grants	Agriculture	688,848	
Total U.S. Environmental Protection Agency Federal Programs				11,735,062	
Nuclear Regulatory Commission					
Office of State and Tribal Programs	77.001	Radiation Control: Training Assistance and Advisory Counseling	Human Services	55,121	
Total Nuclear Regulatory Commission Federal Programs				55,121	
U.S. Department of Energy					
Office of Energy Efficiency & Renewable Energy	81.041	State Energy Program	Economic Devel	857,036	
Office of Energy Efficiency & Renewable Energy	81.999	State Housing Oil and Propane Program	State Planning	1,372	
Total U.S. Department of Energy Federal Programs				858,408	
Federal Emergency Management Agency					
Readiness, Response & Recovery Directorate	83.012	Hazardous Materials Assistance Program	Defense	11,046	
Federal Insurance and Mitigation Administration	83.105	Community Assistance Prog: State Support Services Element	State Planning	153,337	
Federal Insurance and Mitigation Administration	83.536	Flood Mitigation Assistance	Defense	118,790	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Defense	2,133,522	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Financial Services	39	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Corrections	17,791	
Federal Insurance and Mitigation Administration	83.548	Hazard Mitigation Grant	Defense	2,150,820	
Federal Insurance and Mitigation Administration	83.550	National Dam Safety Program	Defense	45,962	
Federal Insurance and Mitigation Administration	83.551	Project Impact: Building Disaster Resistant Communities	Defense	19,020	
Office of National Preparedness	83.552	Emergency Management Performance Grants	Defense	1,821,507	
Total Federal Emergency Management Agency Federal Programs				6,471,834	
U.S. Department of Education					
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Education	1,944,165	
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Corrections	37,033	
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Behavioral Services	14,013	
Office of Elementary & Secondary Education	84.010	Title I Grants to Local Educational Agencies	Education	31,536,489	**
Office of Elementary & Secondary Education	84.011	Migrant Education: State Grant Program	Education	4,049,342	
Office of Elementary & Secondary Education	84.013	Title I Program for Neglected and Delinquent Children	Corrections	144,110	
Office of Elementary & Secondary Education	84.013	Title I Program for Neglected and Delinquent Children	Education	12,861	
U.S. Department of Education	84.034	Public Library Services	State Library	871,359	
Office of Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Education	5,206,536	**
Office of Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Corrections	58,417	**
Office of Vocational & Adult Education	84.051	National Vocational Education Research	State Library	2,525	
Office of Special Education & Rehab. Services	84.126	Rehab. Services: Vocational Rehabilitation Grants to States	Labor	14,817,676	**
Office of Special Education & Rehab. Services	84.161	Rehab. Services: Client Assistance Program	Labor	128,887	
Office of Bilingual Educ. & Minority Languages	84.162	Immigrant Education	Education	91,627	
Office of Special Education & Rehab. Services	84.169	Independent Living: State Grants	Labor	297,581	
Office of Special Education & Rehab. Services	84.177	Independent Living Serv. for Older Individuals Who are Blind	Labor	235,252	
Office of Special Education & Rehab. Services	84.181	Special Ed: Grants for Infants and Families with Disabilities	Education	1,702,506	
Office of Postsecondary Education	84.185	Byrd Honors Scholarships	Education	180,750	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Education	58,250	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Behavioral Services	2,153,911	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	16,490	
Office of Special Education & Rehab. Services	84.187	Supp. Employment Svcs. for Individuals w/ Severe Disabilities	Labor	421,671	
Office of Bilingual Educ. & Minority Languages	84.194	Bilingual Education Support Services	Education	95,647	
Office of Elementary & Secondary Education	84.196	Education for Homeless Children and Youth	Education	101,516	
Office of Elementary & Secondary Education	84.213	Even Start: State Educational Agencies	Education	957,144	
Office of Elementary & Secondary Education	84.214	Even Start: Migrant Education	Education	285,862	

See accompanying notes to the Schedule of Expenditures of Federal Awards

Asterisks indicate audited programs.

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
Office of Educational & Research Improvements	84.215	Fund for the Improvement of Education	Education	162,015	
Office of Special Education & Rehab. Services	84.224	Assistive Technology	Education	356,858	
Office of Vocational & Adult Education	84.243	Tech-Prep Education	Education	560,349	
Office of Special Education & Rehab. Services	84.264	Rehabilitation Training: Continuing Education	Labor	53,618	
Office of Elementary & Secondary Education	84.276	Goals 2000: Education Systemic Improvement Grants	Education	280,607	
Office of Elementary & Secondary Education	84.276	Goals 2000: Education Systemic Improvement Grants	Corrections	4,169	
Office of Elementary & Secondary Education	84.278	Vocational Education: Cooperative Demonstration	Labor	5	
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Education	1,985,757	
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Corrections	1,136	
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Education	1,816,847	
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Corrections	2,577	
Office of Elementary & Secondary Education	84.314	Even Start: Statewide Family Literacy Program	Education	150,162	
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Education	546,773	
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Corrections	4,790	
Office of Special Education & Rehab. Services	84.323	State Program Improvement Grants for Children w/Disabilities	Education	443,540	
Office of Elementary & Secondary Education	84.330	Advanced Placement Incentive Program	Education	304,389	
Office of Vocational & Adult Education	84.331	Grants to States for Incarcerated Youth Offenders	Corrections	7,001	
Office of Elementary & Secondary Education	84.332	Comprehensive School Reform Demonstration	Education	1,149,611	
Office of Postsecondary Education	84.334	Early Awareness and Readiness for Undergrad. Programs	Education	2,035,764	
Office of Postsecondary Education	84.336	Teacher Quality Enhancement Grants	Education	870,495	
Office of Elementary & Secondary Education	84.338	Reading Excellence	Education	2,508,325	
Office of Elementary & Secondary Education	84.340	Class Size Reduction	Education	7,347,182	**
Office of Elementary & Secondary Education	84.340	Class Size Reduction	Corrections	22,172	**
Office of Elementary & Secondary Education	84.348	Title I Accountability Grants	Education	524,809	
Office of Elementary & Secondary Education	84.352	School Renovations Grants	Education	12,224	
U.S. Department of Education	84.999	Nat'l Occupational Information Coordinating Committee	Labor	110,757	
Special Education Cluster					
Office of Special Education & Rehab. Services	84.027	Special Education: Grants to States	Education	30,663,182	**
Office of Special Education & Rehab. Services	84.027	Special Education: Grants to States	Corrections	68,632	**
Office of Special Education & Rehab. Services	84.173	Special Education: Preschool Grants	Education	2,529,999	**
Total U.S. Department of Education Federal Programs				119,945,364	
National Archives & Records Administration					
National Archives & Records Administration	89.001	National Archives Reference Service: Historical Research	Historical Records	44,019	
Total National Archives & Records Administration				44,019	
U.S. Department of Health & Human Services					
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	37,295	
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	57,850	
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	104,559	
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Discretionary Projects	Human Services	162,632	
Administration on Aging	93.051	Alzheimer's Disease Demonstration Grants	Human Services	184,912	
Administration on Aging	93.052	National Family Caregivers Support	Human Services	465,037	
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	527,170	
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Health Data	95	
Centers for Disease Control & Prevention	93.116	Project Grants and Coop. Agreements for Tuberculosis Control	Human Services	170,667	
Centers for Disease Control & Prevention	93.119	Maine System Reform Grant Project	Behavioral Services	102,288	
Health Resources & Services Adm	93.130	Primary Care Services: Resource Coordination & Development	Human Services	179,951	
Centers for Disease Control & Prevention	93.136	Injury Prev. & Control Research & State & Comm Based Progs	Human Services	16,155	
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Behavioral Services	273,950	
Health Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	159,258	
Centers for Disease Control & Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	306,355	
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Corrections	40,487	
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Behavioral Services	485,488	
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Behavioral Services	622,766	
Health Resources & Services Administration	93.235	Abstinence Education	Human Services	204,786	
Substance Abuse & Mental Health Service Adm	93.238	Treatment Outcomes & Perf. Pilot Studies Enhancement	Human Services	112,479	
Office of the Secretary	93.239	Policy Research and Evaluation Grants	Human Services	5,367	
Health Resources & Services Administration	93.241	State Rural Hospital Flexibility Program	Human Services	220,330	

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
Centers for Disease Control & Prevention	93.268	Immunization Grants	Human Services	8,679,899	**
National Institutes of Health	93.279	Drug Abuse Research Programs	Behavioral Services	73,789	
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Education	103,994	**
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Human Services	2,995,399	**
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Conservation	6,857	**
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Labor	88	**
Centers for Disease Control & Prevention	93.293	Addressing Asthma From a Public Health Perspective	Human Services	171,615	
Administration for Children & Families	93.556	Promoting Safe and Stable Families	Human Services	565,848	
Administration for Children & Families	93.556	Promoting Safe and Stable Families	Corrections	63,703	
Administration for Children & Families	93.558	Temporary Assistance for Needy Families	Human Services	55,804,411	**
Administration for Children & Families	93.563	Child Support Enforcement	Human Services	14,009,789	**
Administration for Children & Families	93.563	Child Support Enforcement	Attorney General	814,541	**
Administration for Children & Families	93.563	Child Support Enforcement	Judicial	1,535,083	**
Administration for Children & Families	93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	608,423	
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	3,061,112	
Administration for Children & Families	93.571	Community Services Block Grant Discretionary Awards	Human Services	13,017	
Administration for Children & Families	93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	115,167	
Administration for Children & Families	93.586	State Court Improvement Program	Office of the Courts	118,556	
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Human Services	1,631,463	
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Judicial	83,600	
Administration for Children & Families	93.600	Head Start	Human Services	170,920	
Administration for Children & Families	93.601	Child Support Enforcement Demonstrations and Special Projects	Human Services	12,206	
Administration for Children & Families	93.603	Adoption Incentive Payments	Human Services	339,840	
Administration for Children & Families	93.630	Development Disabilities Basic Support and Advocacy Grants	Behavioral Services	373,259	
Administration for Children & Families	93.631	Developmental Disabilities Projects of National Significance	Behavioral Services	82,417	
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	91,489	
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,318,393	
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Attorney General	577,584	
Administration for Children & Families	93.658	Foster Care: Title IV-E	Human Services	31,070,261	**
Administration for Children & Families	93.658	Foster Care: Title IV-E	Judicial	20,841	**
Administration for Children & Families	93.659	Adoption Assistance	Human Services	9,525,686	**
Administration for Children & Families	93.667	Social Services Block Grant	Human Services	8,760,598	**
Administration for Children & Families	93.667	Social Services Block Grant	Behavioral Services	1,303,331	**
Administration for Children & Families	93.667	Social Services Block Grant	Attorney General	633,399	**
Administration for Children & Families	93.669	Child Abuse and Neglect State Grants	Human Services	128,148	
Administration for Children & Families	93.671	Family Violence Prevention & Services	Human Services	660,748	
Administration for Children & Families	93.674	Chafee Foster Care Independent Living	Human Services	723,192	
Centers for Medicare and Medicaid Services	93.767	State Children's Insurance Program	Human Services	16,316,694	
Centers for Medicare and Medicaid Services	93.779	Health Care Financing Research, Demonstrations & Evaluations	Human Services	131,598	
Health Resources & Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	170,361	
Health Resources & Services Adm	93.917	HIV Care Formula Grants	Human Services	892,014	
Centers for Disease Control & Prevention	93.919	State Based Comp Brst & Cerv Cancer Early Detection Programs	Human Services	1,687,748	
Centers for Disease Control & Prevention	93.938	Comprehensive School Health Programs	Education	976,712	
Centers for Disease Control & Prevention	93.940	HIV Prevention Activities: Health Department Based	Human Services	1,315,692	
Centers for Disease Control & Prevention	93.944	HIV/AIDS Surveillance	Human Services	113,840	
Centers for Disease Control & Prevention	93.945	Assistance Programs for Chronic Disease Prevention and Control	Human Services	1,195,988	
Substance Abuse & Mental Health Service Adm	93.958	Block Grants for Community Mental Health Services	Behavioral Services	1,452,874	
Substance Abuse & Mental Health Service Adm	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Behavioral Services	6,144,625	**
Centers for Disease Control & Prevention	93.977	Sexually Transmitted Diseases Control Grant	Human Services	329,049	
Centers for Disease Control & Prevention	93.988	Coop Agrmt for State Based Diabetes Control Programs	Human Services	338,196	
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Human Services	1,299,149	
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Public Safety	26,029	
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,544,315	
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Education	150,079	
Health & Human Services	93.999	Implementation of Alcohol & Drug Abuse Data Collection System	Behavioral Services	31,423	
Health & Human Services	93.999	State Treatment Needs Assess. Studies: Alcohol & Other Drugs	Behavioral Services	191,297	
Health & Human Services	93.999	Federal Block Grant Fund - Office of Substance Abuse	Behavioral Services	(1,262)	
Health & Human Services	93.999	Drinking Water Program	Environment	(604)	
Health & Human Services	93.999	Statistics Project	Human Services	372,482	
Aging Cluster					
Administration on Aging	93.044	Grants for Supportive Services & Senior Centers	Human Services	1,893,309	
Administration on Aging	93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	2,613,367	
Administration on Aging	93.045	Special Programs for the Aging: Title III, Part C: Nutrition Service	Attorney General	64,516	
Child Care Cluster					
Administration for Children & Families	93.575	Child Care & Development Block Grant	Human Services	16,184,953	**
Administration for Children & Families	93.596	Child Care Mandatory & Matching Funds of Child Care/Dev	Human Services	8,291,117	**

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2002	
Medicaid Cluster					
Office of the Secretary	93.775	State Medicaid Fraud Control Units	Attorney General	267,150	**
Centers for Medicare and Medicaid Services	93.777	State Survey and Certification of Health Care Providers	Human Services	2,538,976	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Human Services	1,019,363,189	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Behavioral Services	3,438,766	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Attorney General	88,859	**
Total U.S. Department of Health & Human Services Federal Programs				1,242,111,044	
Corporation for National & Community Service					
Corporation for National & Community Service	94.003	State Commissions	State Planning	233,833	
Corporation for National & Community Service	94.004	Learn & Serve America: School & Community Based Programs	Education	86,578	
Corporation for National & Community Service	94.006	AmeriCorps	State Planning	812,592	
Corporation for National & Community Service	94.006	AmeriCorps	Labor	586,786	
Corporation for National & Community Service	94.007	Planning and Program Development Grants	State Planning	52,168	
Corporation for National & Community Service	94.007	Planning and Program Development Grants	Human Services	35,916	
Corporation for National & Community Service	94.009	Training and Technical Assistance	State Planning	77,756	
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	State Planning	119,523	
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	Human Services	314,476	
Corporation for National & Community Service	94.563	Title IV-D SELU Administration	Human Services	811,972	
Total Corporation for National & Community Service Federal Programs				3,131,600	
Social Security Administration					
Disability and Income Security Program Office	96.001	Social Security: Disability Insurance	Human Services	6,895,496	**
Total Social Security Administration Federal Programs				6,895,496	
Total State Expenditures of Federal Awards				1,956,478,185	

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2002

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) and is presented for purposes of additional analysis. Total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts are aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards.

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2002, with the exception of the component units identified in Note 1 to the BFS. The component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $5.1 million in expenditures, distributions, or issuances for the year ended June 30, 2002. Programs audited as major programs are marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

3. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 2002 was $105,541.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 2002 was $20,710,651.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $991,266 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Human Services – Childhood Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents $2,793,092 for administrative costs and $5,886,807 for the value of vaccines disbursed. The value of inventory as of June 30, 2002 was $671,537.

E. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $189,803 (CFDA 10.568) and commodities of $2,154,777 (CFDA 10.569). The value of inventory at June 30, 2002 was $1,165,315.

F. Department of Conservation - Federal Excess Personal Property (no CFDA number): During fiscal year 2002 the state received property with an original acquisition cost of $594,802 from the U.S. Department of Agriculture. The title has not transferred to the state and the amount is not recorded on the Schedule of Expenditures of Federal Awards.

G. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401): The amount recorded as expenditures includes $1,885,743 of in-kind expenditures.

4. Unemployment Insurance Program

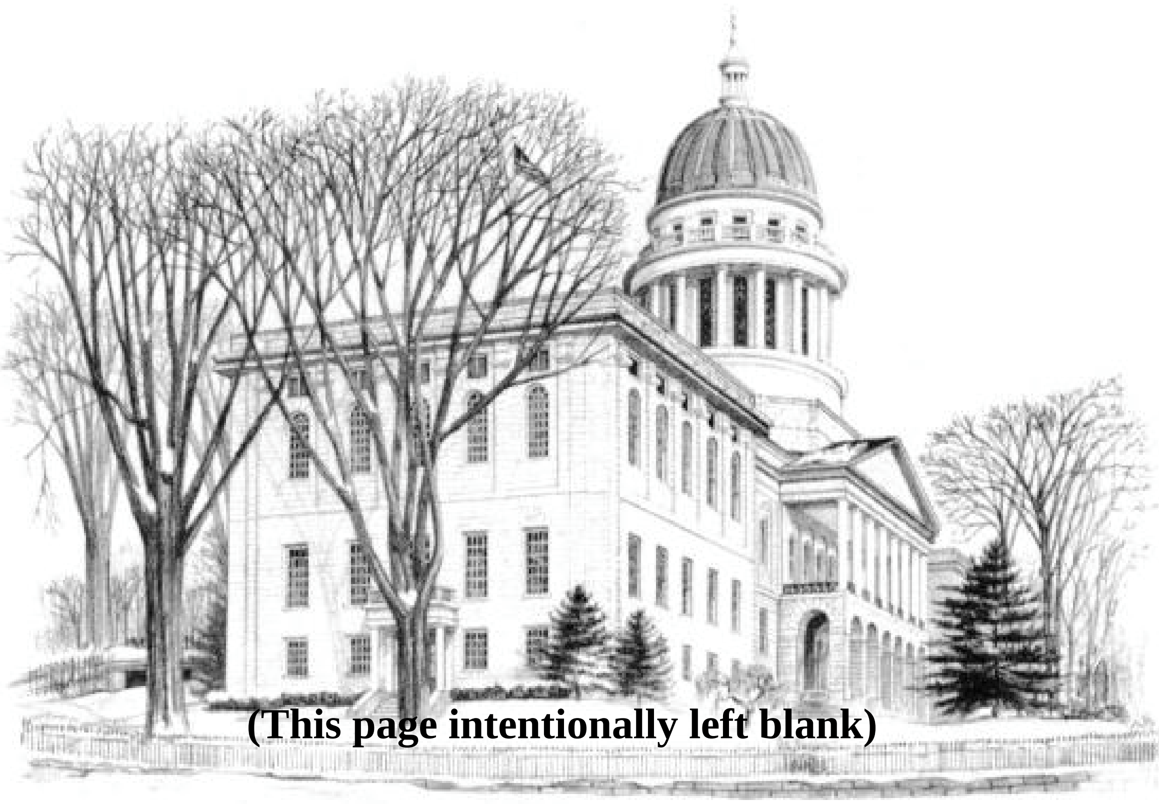
The expenditures reported on the Schedule for Unemployment Insurance, CFDA Program No. 17.225, include:

State Funds	$120,252,416
Federal Funds	28,748,842
Total	$149,001,258

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2002

Legend of State Agency Abbreviations

Abbreviation	State Agency Name
Agriculture	Department of Agriculture
Arts Commission	Maine Arts Commission
Attorney General	Department of the Attorney General
Behavioral Services	Department of Behavioral and Developmental Services
Conservation	Department of Conservation
Corrections	Department of Correction
Defense	Department of Defense, Veterans and Emergency Management
Economic Devel	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Services	Department of Administrative and Financial Services
Health Data	Maine Health Data Organization
Historic Preserve	Maine Historic Preservation Commission
Historical Records	Maine Historical Records Advisory Council
Human Rights	Maine Human Rights Commission
Human Services	Department of Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Branch
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Office of the Courts	Administrative Office of the Courts
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of the Secretary of State
State Library	Maine State Library
State Museum	Maine State Museum
State Planning	Executive Department - State Planning Office
Transportation	Department of Transportation



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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section I – Summary of Auditor's Results

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	YES ☑	NO ☐
• Reportable conditions identified that were not considered to be material weaknesses?	YES ☑	NO ☐
• Noncompliance material to financial statements noted?	YES ☐	NO ☑

Federal Awards:

Internal control over major programs:		
• Material weaknesses identified?	YES ☑	NO ☐
• Reportable conditions identified that were not considered to be material weaknesses?	YES ☑	NO ☐
Type of auditor's report issued on compliance for major programs:	Qualified	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

Identification of Major Programs:

CFDA #	**Name of Federal Program or Cluster**
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
Employment Services Cluster	
17.207	Employment Service
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program

Identification of Major Programs (continued):

Workforce Investment Act Cluster

17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

Special Education Cluster

84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

Child Care Cluster

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory & Matching Funds - Child Care & Develop. Fund

Medicaid Cluster

93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program (Medicaid, Title XIX)

Other Programs

10.557	Special Supplemental Nutrition Program for Women Infants and Children
12.401	National Guard Military Operations Maintenance (O&M) Projects
12.999	Readiness, Sustainment Maintenance Center (Loring Rebuild)
15.916	Outdoor Recreation – Acquisition, Development and Planning
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education-Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.340	Class Size Reduction
93.268	Immunization Grants
93.283	Centers for Disease Control: Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.959	Block Grants for Prevention and Treatment of Substance Abuse
96.001	Social Security Disability Insurance

Dollar threshold used to distinguish between type A and type B programs	**$ 5,725,027**	
Does the auditee qualify as low risk?	YES ☐	NO ☑

Section I - Summary of Auditor's Results

Summary of Questioned Costs:

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Agriculture				
• Bureau of Family Independence	10.561	State Administrative Matching Grants for the Food Stamp Program	$203,509	02-42
U.S. Department of Defense				
• Department of Defense, Veterans and Emergency Management	12.999	Readiness, Sustainment Maintenance Center	$300,000	02-28
U.S. Environmental Protection Agency				
• Department of Environmental Protection, Bureau of Land and Water Quality •	66.605	Performance Partnership Grants	$15,300	02-36
U.S. Department of Health and Human Services				
• Department of Human Services, Division of Financial Services	93.558	Temporary Aid to Needy Families	$18,968,786 $1,763,688	02-39 02-46
U.S. Department of Health and Human Services				
• Department of Human Services, Bureau of Family Independence, Division of Child Support Enforcement and Division of Financial Services	93.563	Child Support Enforcement	$90,700 $735,765	02-48 02-49
• Department of Human	93.563	Child Support	$437,427	02-50

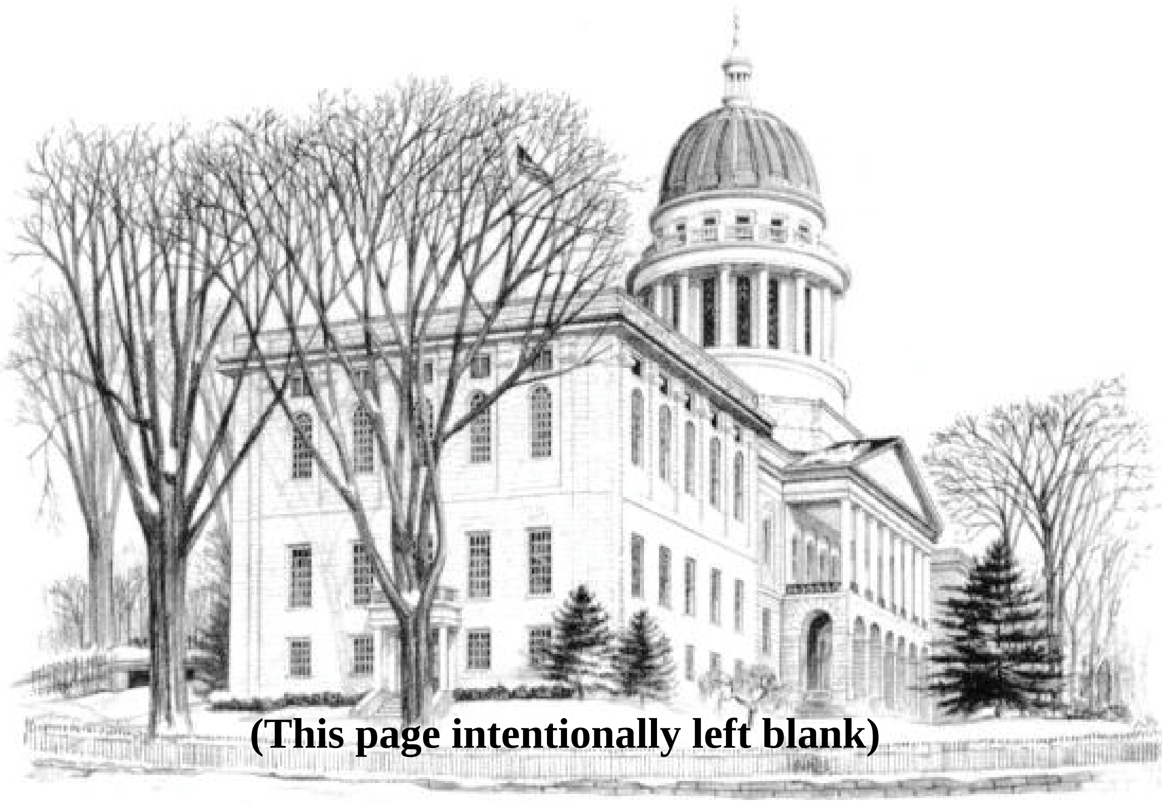
Services, Division of Financial Services		Enforcement		
U.S. Department of Health and Human Services • Department of Human Services, Bureau of Child and Family Services	93.575 93.796	Child Care and Development Block Grant/ Child Care Mandatory & Matching Funds of Child Care and Development Block Grant	$88,225	02-52
U.S. Department of Health and Human Services • Department of Human Services, Division of Financial Services	93.667	Social Services Block Grant	$691,657	02-75
U.S. Department of Health and Human Services • Department of Human Services, Bureau of Child & Family Services	93.658 93.658 93.659	Foster Care Foster Care Adoption Assistance	$24,773 $49,534 $11,391	02-59 02-61 02-59
• Department of Human Services, Bureau of Child & Family Services	93.658	Foster Care	$68,401	02-55
• Department of Human Services, Bureau of Child & Family Services	93.659	Adoption Assistance	$260,866	02-41
• Department of Human Services, Bureau of Child & Family Services, Division of Financial Services	93.658	Foster Care	$48,047 $106,252	02-56 02-40
• Department of Human Services, Division of Financial Services	93.658	Foster Care	$8,286,840	02-57

Section I - Summary of Auditor's Results

U.S. Department of Health and Human Services				
• Department of Human Services, Bureau of Medical Services	93.778	Medical Assistance Program	$15,869	02-70
• Department of Human Services, Bureau of Family Independence	93.778	Medical Assistance Program	$330,860	02-68
		Total Questioned Costs	**$32,497,890**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section II – Financial Statement Findings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State of Maine

Summary of Financial Statement Findings

We found that, in general, the State's systems adequately support processing of transactions in accordance with the budgetary basis of accounting, but do not facilitate preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The conditions that we cite are primarily GAAP financial reporting deficiencies rather than violations of law or misuse of resources.

Audit adjustments were necessary to capture information that was either not considered or was incorrectly reported.

Capital assets:

The State's control systems have not been designed to ensure that all of its assets are included in its financial records. In prior years, deficiencies in reporting for capital assets resulted in a scope qualification to the audit opinion. Improvements in reporting resulted in the opinion not being qualified this year, but we still consider there to be a material control weakness. We proposed over $200 million in audit adjustments to correct information reported by the Bureau of General Services and the Division of Financial and Personnel Services that understated assets resulting from construction projects. The Department of Conservation inadvertently reported some land more than once, which resulted in a $30 million adjustment. The Department of Transportation did not report $3 million in work in progress for a cargo pier. We also found that the Bureau of Information Services included items in its fixed asset system that it no longer had. We proposed $14.6 million in adjustments to remove the fixed assets and the related accumulated depreciation. The proposed adjustments were all accepted and posted to the State's financial statements.

The Department of Administrative and Financial Services, Division of Financial and Personnel Services, incorrectly included $4.1 million in 2003 capital leases in the amount reported for June 30, 2002. Also, differences in interpretation of accounting standards resulted in a $2.8 million adjustment. Although adjustment was necessary, the Division has done significant work to properly record its capital leases. The resulting revisions allowed an unqualified audit opinion to be expressed.

Reporting errors:

The Bureau of Accounts and Control successfully implemented a new financial reporting standard that significantly altered financial statement presentation. However, we found that the Bureau accepted information provided to it for inclusion in the State's external financial reports without adequately verifying its accuracy or its completeness. We noted significant errors in amounts presented for capital assets, for loans receivable and for accounts receivable. Also, the Bureau is responsible for aggregating and presenting information for the State's component

units. The Bureau did not ensure that one component unit implemented a major new accounting standard as required. Audit adjustments were necessary to properly reflect the financial relationships between the State and the component units. The Bureau has since obtained Legislative approval for additional senior-level accounting positions that will provide more resources and allow better control of information.

Receivables:

Several State agencies do not have sufficient controls to report, identify, bill, account for or collect all amounts due to the State. The Departments of Behavioral and Developmental Services, Economic and Community Development, Environmental Protection, Human Services, Inland Fisheries and Wildlife, the Secretary of State, and the Judicial Branch, either did not report or reported incorrectly amounts due to the State. Also, the Bureau of Accounts and Control incorrectly summarized information provided to it.

Cash:

We found that the Department of Public Safety has inadequate controls over seized cash, which is highly susceptible to loss or misuse. It has not reconciled its records of cash seized from individuals charged with criminal activity to the amounts recorded in the State's accounting system. The variance is approximately $77,000.

Accounting for federal funds:

The Department of Human Services does not have adequate systems and procedures in place to account for its federal funds, which include some of the largest and most complex programs administered by the State. We consider this a material weakness in internal control because significant misstatements that are material to the financial statements may occur and not be detected within a timely period. The inability to provide a clear record of transactions may result in federal sanctions, which may include repayment of money received.

Other:

We also found that an employee of the Department of Human Services improperly processed fiscal year-end payments in order to prevent $323,000 in General Fund money from lapsing. The Department has stated that this was a one-time occurrence.

We found that the Department has inadequate controls over cash balances of, and amounts due from, subrecipients. It has also recorded some amounts due to the Special Revenue Fund that should have been recorded as due to the General Fund, from which the money was originally disbursed.

Department of Administrative and Financial Services

**(02-01) Division of Financial and Personnel Services
Bureau of Accounts and Control
Bureau of General Services**

Finding: Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)

The Bureau of Accounts and Control did not sufficiently monitor agencies for compliance with the State's fixed asset internal control policies that are designed to ensure complete and accurate recording of the State of Maine's capital assets. Employees responsible for the oversight of their agency's capital assets did not regularly demonstrate a comprehensive understanding of the State's policies, particularly in the areas of proper valuation of the asset, the importance of performing physical inventories, capitalization of construction costs, and the timely addition and deletion of newly acquired or retired capital assets.

The Bureau uses a database maintained by the Department of Conservation to capitalize that Department's land for disclosure on the State's financial statements. Controls were not in place to ensure that the database accurately depicted the value of land held by that agency. An error in the compilation of the Department's land listing from the database caused duplicate land entries resulting in an overstatement of $22 million. The identified errors were corrected on the financial statements.

The Bureau relied on the Division of Financial and Personnel Services to provide information to capitalize the State's construction projects in progress as of June 30, 2002. Controls were not in place to ensure a complete compilation of this listing. Additionally, construction costs for projects overseen by the Bureau of General Services that were complete or substantially complete as of June 30, 2002 were not recorded on the State's fixed asset system. These control weaknesses resulted in Construction-in-Progress, Buildings, and Improvements other than Buildings being understated by a total of $172 million. The identified errors were corrected on the financial statements.

In addition to the construction projects overseen by the Bureau of General Services, individual agencies are responsible for various construction projects on buildings owned by that agency. Controls are not in place to ensure that those construction costs are properly included on the State's fixed asset system. Internal control weaknesses resulted in buildings being understated by an additional $30 million. The identified errors were corrected on the financial statements.

Recommendation:
We recommend that the Bureau of Accounts and Control monitor and provide clear and specific guidance to agencies to ensure compliance with fixed asset internal control policies and to ensure that the recorded amounts appear reasonable. We also recommend that each agency follow the internal control policies established in the fixed asset manual and that each agency provide complete and accurate information to Accounts and Control for financial reporting.

Auditee Response/Corrective Action Plan:

Department of Administrative and Financial Services

Department of Conservation

Contact Person: Will Harris, Dir. General Services, DOC
287-2215

The Department uses a sophisticated land database to keep track of its property. Land owned by the Department sometimes spans more than one town. Reports from the database by town showed the same parcel in its entirety in each town in which it was located thus creating a duplication. This duplication was discovered and has since been corrected.

Bureau of Accounts and Control

We are currently working on the fixed assets policy manual to clarify the reporting requirements. We have assigned a staff member to this effort and he is coordinating the efforts around physical inventories and timely reconciliation of the fixed assets system. Also, we are meeting with representatives of BGS and DFPS to clearly define the financial statement requirements and each agency's role in this process. Ultimately, we will establish a central point of contact for providing and reconciling this information.

This year we are incorporating expanded guidance in both the "general information" and "agency-specific instructions" sections of our fiscal year end closing package in order to ensure that agencies understand the need to report this information. We will follow up with agencies in year-end liaison meetings to further explain the closing package instructions.

(02-02) Bureau of Accounts and Control

Finding: Inadequate internal control and disclosure over revenue reporting

The Bureau of Accounts and Control did not record a receivable amount of $1,597,559 reported by the Bureau of Motor Vehicles (BMV) as earned but not yet collected. Also, the Bureau of Accounts and Control recorded the balance of collected but not earned revenue (deferred revenue) as $2,333,530, rather than the correct balance of $4,350,420 reported by BMV.

In addition, not all unearned revenue is included in the financial statements. BMV personnel indicated that the information system does not provide the data needed to identify or estimate the amount of deferred revenue that results when multi-year tractor-trailer registrations are paid in full in advance.

Recommendation:

The Bureau of Accounts and Controls should properly record earned and unearned revenue adjustments reported by the Bureau of Motor Vehicles.

Auditee Response/Corrective Action Plan:

<u>Department of the Secretary of State</u>

The Bureau of Motor Vehicles is going through a computer migration which will provide the capabilities needed to provide the detail information that is necessary to record and report revenues collected as recommended above. The anticipated implementation of the new computer system is expected during fiscal year 2004. The change in the method of recording earned, unearned and deferred revenue is anticipated to begin by January 1, 2005.

<u>Bureau of Accounts and Control</u>

Our closing package did not identify the revenue stream associated with the outstanding receivable balance as one specifically requiring accrual. We are clarifying the guidance in our closing package to require accrual of outstanding receivables for all revenue streams of $1 million or more annually. Our closing package does require the agency (BMV) to provide the balance of deferred revenue at year end, which BMV provided. We inadvertently entered the new (FY 02 only) additions to deferred revenue rather than the accumulated amount through the end of FY 02. Both amounts were provided by BMV. In essence, the control system around acquiring the information worked, but simple human error caused us to report the incorrect amount.

(02-03) Bureau of Accounts and Control

<u>Finding</u>: Inadequate internal control over reporting of loans receivable

The Department of Economic and Community Development administers two programs that provide working capital, equipment, and real estate loans to businesses. The State records the disbursement of the loan proceeds as an expenditure when the funds are distributed to the sponsoring municipality. Revenue is recorded when the borrower makes periodic payments of principal and interest. However, Generally Accepted Accounting Principles (GAAP) require that receivables be recorded when loans are made, and that the amount of receivables be reduced when payments are collected. The financial statements must include the amount of loans outstanding as of the end of the fiscal year, reduced by an estimate of future uncollectible amounts. If the amount of the receivable and the allowance account are stated at the net amount, then the amount of the allowance must be otherwise disclosed in the face or notes to the financial statements. Interest income should also be recognized. The Bureau of Accounts and Control requires that the Department communicate information necessary to prepare GAAP financial statements.

On June 30, 2002, loans to be repaid to the State approximated $8.5 million. Department personnel estimate that approximately $2.1 million will be uncollectible. However, the Department communicated to the Bureau of Accounts and Control that the receivables balance was $6.0 million rather than $8.5 million less an allowance for uncollectible accounts of $2.1 million. It is merely coincidental that the net receivables and allowance balance approximates

the original amount communicated to the Bureau. Also, the Bureau had not adjusted the financial statements for the amount originally reported to them by the Department.

Recommendation:

We recommend that the Department of Economic and Community Development determine the proper balances for loans receivable, the allowance for uncollectible accounts, and interest income, and report this information to the Bureau of Accounts and Controls. We also recommend that the Bureau reflect this information in the financial statements.

Auditee Response/Corrective Action Plan:

Contact Person: Orman Whitcomb, 624-9819

The Department of Audit has provided information to the Office of Community Development (OCD) staff regarding the proper method of listing and reporting loans receivable prior to this audit. Last year in the process of instituting new procedures to comply with this issue, the OCD Financial Representative resigned. Unfortunately this happened just before the loans receivable report was due and that person had been assigned this duty. Being unable to fill this position due to the "hiring freeze," we were given permission to have the person in our Accountant II position take over the duties on an "acting" basis. Unfortunately, there is more work between the Financial Representative and Accountant II position than one person can complete. Therefore, the person responsible for initial intake of our loan applications was asked to complete this report. Although a relatively new DECD employee, she completed some valuable research of historical data and discovered some errors in our receivables list and the report was filed. We suspected at the time, and had conveyed to the Department of Audit that there may be some additional adjustments necessary.

To complicate matters even more, the OCD had contracted with FAME for servicing of our loans about two years ago. Because we had a full staff and a very qualified (extensive experience with business analysis and loan servicing) new employee we decided to take back the responsibility of servicing our loans from FAME, obviously not realizing that two "key" people in the process would be leaving within six months. Since that time, several OCD staff members have been researching our loan portfolio actively looking for errors and we have started using a loan servicing software package. We anticipate that the involvement of additional staff and the new software will provide the means to complete the report for the end of this fiscal year as an accurate representation of our current loans receivable, uncollectible accounts and detail of principal and interest earned. These actions will provide a method to accurately maintain this information into the future.

<u>Bureau of Accounts and Control</u>

We will work with DECD to properly record these loans receivable.

Department of Administrative and Financial Services

(02-04) Bureau of Accounts and Control

<u>Finding</u>: Controls inadequate to prevent interfund misstatement of cash and vouchers payable

State accounting controls did not prevent a $6 million error in recorded cash and vouchers payable (accounts payable) between the General Fund and the Federal Expenditures Fund at June 30, 2002. Audit analysis showed that General Fund vouchers payable, which is normally a credit balance, had a debit balance after an audit adjustment was proposed to properly post a $4 million entry from August 2001 that had been overlooked by the Department of Human Services.

A programming problem prevented certain payment vouchers from being matched to voucher payable entries as they should. Although transactions cleared at the detail account level, they did not clear at the General Ledger level, which resulted in incorrect balances of cash and vouchers payable in the accounting system. The problem was not evident until the unexpected debit account balance resulted. The Department of Audit proposed, and the Bureau of Accounts and Control booked, an adjusting journal entry to increase General Fund cash and vouchers payable and to decrease Federal Expenditure Fund cash and vouchers payable by $6 million to correct the June 30, 2002 misstatement.

<u>Recommendation</u>:

We recommend that Bureau of Accounts and Control personnel analyze account balances to identify unusual balances and correct the accounting system programming error that caused the misstatements. We also recommend that the Bureau ensure that agencies post significant recurring journal entries when expected.

<u>Auditee Response/Corrective Action Plan</u>:

We agree with the Auditor's Finding and Recommendation. This is a system error that may have existed for as long as the system has been in use. The Deputy State Controller is working with BIS to determine the appropriate corrective action.

(02-05) Bureau of Accounts and Control

<u>Finding</u>: Reporting of Component Unit financial information inadequate

The Bureau of Accounts and Control's internal control over the integration of component unit financial information into the State's financial statements was not adequate to ensure consistent and accurate financial reporting.

Audit adjustments were proposed to:

1. Record $8.1 million in primary government assets of the Biomedical Research Fund managed by the Maine Technology Institute for the State of Maine,

2. Modify the presentation of the financial statements for the Loring Development Authority, which had not been presented in compliance with GASB 34, and

3. Record $43.9 million in primary government assets relating to revolving loan funds managed by the Finance Authority of Maine. The Department of Audit and the Office of the State Controller agree that there are unresolved issues regarding financial presentation of those funds, which are being further researched by the State Controller and legal counsel.

Also, the Controller did not properly reflect the net change for each major component unit as required by GASB 34 in the discrete component unit Combining Statement of Activities.

Recommendation:

We recommend that the Bureau of Accounts and Control develop procedures that ensure the component unit financial information that is incorporated into the State's financial statements is accurate and complete. We also recommend that primary government information in the financial statements be adjusted, if necessary, to reflect information obtained through review of component unit statements.

Auditee Response/Corrective Action Plan:

1. *New statutory language should improve the process of identifying and tracking monies held by component units and related organizations.*

2. *We jointly determined that these amounts could be removed from the reporting entity financials without a material effect. We will contact the auditors for Loring Development Authority to correct this issue going forward.*

3. *We will be asking the Attorney General's Office and counsel for FAME to review the pertinent statutes to determine the proper ownership of these assets. Based on that review, we will discuss the proper presentation of these balances with FAME and their auditors.*

We will revise the format for reporting component units to comply with GASB 34.

(02-06) Bureau of Information Services

Finding: Inadequate maintenance of the fixed asset system

The Bureau of Information Services of the Department of Administrative and Financial Services did not adequately maintain the fixed asset records in accordance with the Controller's fixed asset policy manual. Numerous items were identified that had been disposed of, but had not been removed from the fixed asset records. Other items were improperly classified as fixed assets.

The recorded value of fixed assets, and related accumulated depreciation, was overstated by approximately $14.6 million. As a result of the audit, the Bureau adjusted the value of fixed assets from $41.1 million to $26.3 million and accumulated depreciation from $35.1 million to $20.5 million.

The Bureau had initiated physical inventories prior to our inquiries to address the deficiencies in the fixed asset system. Additionally, they continued to work throughout the audit process to address and resolve the issue surrounding the fixed asset system.

Recommendation:

We recommend that the Bureau of Information Services continue efforts to accurately maintain fixed asset systems.

Auditee Response/Corrective Action Plan:

We agree with this finding.

A physical inventory for the Bureau of Information Services has been a long time coming and DFPS was finally successful in getting the process moving in Fiscal Year 2003. To date, significant progress has been made to address deficiencies in the fixed asset system. Thus far, approximately $11 million of disposed assets have been removed from the fixed asset system. Also, another $3.8 million of items improperly classified as fixed assets have been removed from the BIS balance sheet; these are telephone wiring and data cabling that are more appropriately categorized as assets of the various buildings rather than BIS. Both the Fixed Assets and Accumulated Depreciation balance sheet accounts within BIS have been adjusted.
The inventory process continues; as more cost centers are inventoried, more adjustments will occur. The largest cost centers have been completed; we are hopeful that the remaining cost centers will be done this fiscal year to ensure compliance for next year's Audit.

It is intended that an ongoing, three year rolling inventory process will be maintained by BIS to ensure compliance with the Controller's fixed asset policy standards.

(02-07) Division of Financial and Personnel Services

Finding: Unresolved lease valuation and reporting differences (Prior Year Finding)

The Division of Financial and Personnel Services utilizes a database to identify, classify, and report the value of capital leases in the State's financial statements. Differences between the Division and the Department of Audit's interpretation and application of Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 13, *Accounting for Leases* resulted in a difference of $2.8 million in asset valuation. Additionally, the June 30, 2002

working trial balance included 2003 capital leases, which resulted in an audit adjustment of $4.1 million on the State of Maine's financial statements.

Recommendation:

We recommend that the Division continue to refine its procedures to record and disclose capital and operating lease transactions in compliance with the requirements set forth in FASB 13.

Auditee Response/Corrective Action Plan:

In Fiscal Year 2002, DFPS reevaluated every lease transaction. We documented a clear and concise written audit trail of the best approximation of current fair market value for each lease. To consistently reach this approximation, we used the latest town assessed value of the building and/or land, with additional consideration given to significant building renovations (with documentation in the form of building permits or a new assessment by the town). In accordance with FASB 13, we consider our valuation process adequate as a consistent application to each and every lease resulting in a reasonable estimate of fair market value.

DFPS agrees with the importance of continuing to refine and review procedures used to record and disclose lease transactions to ensure continued compliance with all accounting requirements. The Audit review included an additional step that we have added to our process, which involves obtaining an opinion (written format, either email or letter) from the town assessor in situations when the town assessment is not current. We have implemented this process as of April 2003. Also, we have added a "verification" step to our journal process to ensure that "new year" leases are not included in our year end journals.

A tremendous amount of work occurred on the part of both Audit and DFPS with regards to outstanding Capital Lease issues. DFPS feels the lease database and classification process will be the stronger as a result of that cooperative effort.

Department of Behavioral and Developmental Services

(02-08) Bureau of Financial Administration-Central Office

<u>Finding</u>: Inadequate internal controls over billings and accounts receivable

The Department of Behavioral and Developmental Services does not currently have sufficient internal controls to ensure timely, complete or efficient billing of accounts receivable. The Department had recognized that its business processes were inadequate and engaged a consultant to both document its processes and to recommend a method to automate the billing function. The consultant's December 2002 report considered the reimbursement unit to be "extremely vulnerable" until there is a "solid plan of personnel development and an understanding of billing procedures from start to finish." The report also commented that the Department relies on a series of loosely connected databases and spreadsheets that is duplicative and inefficient.

Other identified problems included lost revenue resulting from delays in billing the Medicare program and not having billed Medicare for physician services provided at the Bangor Mental Health Institute.

We also noted that the Department did not report the amount of unbilled receivables to the Bureau of Accounts and Control. The amount of unbilled services at June 30, 2002 was $1.9 million.

The Department received $21 million in fiscal year 2002 as a result of charges to governmental and private entities for services provided by the Department.

<u>Recommendation</u>:

We recommend that the Department implement accounting and reporting procedural changes and controls over its billing function to ensure timely and complete billing for services and appropriate reporting of fiscal information.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Anke Siem, Director of Accounting, 287-4277

As a result of the consultant's report, a contract has been written to develop an automated billing system that will eliminate the need for separate databases and spreadsheets. The new system will also comply with the new HIPAA requirements. The contract will be effective June 16, 2003, when the vendor will begin working on the new system. The vendor will also provide in depth training for staff on the new system. Internal control will greatly improve once the system is in place due to extensive staff training and having a system specifically tailored to the billing.

This new system and internal controls will allow the Department to bill Medicare for physician services provided at the Bangor Mental Health Institute and prevent billing delays to the Medicare program.

Department of Behavioral and Developmental Services

We met with Accounts & Control regarding the reporting of accounts receivable at year-end. We were advised that this has not been an issue in previous years due to high materiality levels, which did not require us to report the receivables. With GASB 34 in place, substantial accounting changes have taken place and it appears that the accounts receivable will have to be reported for the year ending 6/30/2003. We are waiting for the final year-end requirements from the Department of Administrative and Financial Services and will comply with the instructions.

The full conversion to the new system is expected to be completed by June 30, 2004.

Department of Conservation

(02-09) Bureau of Parks and Lands

Finding: Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)

The Bureau of Accounts and Control did not sufficiently monitor agencies for compliance with the State's fixed asset internal control policies that are designed to ensure complete and accurate recording of the State of Maine's capital assets. Employees responsible for the oversight of their agency's capital assets did not regularly demonstrate a comprehensive understanding of the State's policies, particularly in the areas of proper valuation of the asset, the importance of performing physical inventories, capitalization of construction costs, and the timely addition and deletion of newly acquired or retired capital assets.

The Bureau utilizes a database maintained by the Department of Conservation to capitalize that Department's land for disclosure on the State's financial statements. Controls were not in place to ensure that the database accurately depicted the value of land held by that agency. An error in the compilation of the Department's land listing from the database caused duplicate land entries resulting in an overstatement of $22 million. The identified errors were corrected on the financial statements.

The Bureau relied on the Division of Financial and Personnel Services to provide information to capitalize the State's construction projects in progress as of June 30, 2002. Controls were not in place to ensure a complete compilation of this listing. Additionally, construction costs for projects overseen by the Bureau of General Services that were complete or substantially complete as of June 30, 2002 were not recorded on the State's fixed asset system. These control weaknesses resulted in Construction-in-Progress, Buildings, and Improvements other than Buildings being understated by a total of $172 million. The identified errors were corrected on the financial statements.

In addition to the construction projects overseen by the Bureau of General Services, individual agencies are responsible for various construction projects on buildings owned by that agency. Controls are not in place to ensure that those construction costs are properly included on the State's fixed asset system. Internal control weaknesses resulted in buildings being understated by an additional $30 million. The identified errors were corrected on the financial statements.

Recommendation:

We recommend that the Bureau of Accounts and Control monitor and provide clear and specific guidance to agencies to ensure compliance with fixed asset internal control policies and to ensure that the recorded amounts appear reasonable. We also recommend that each agency follow the internal control policies established in the fixed asset manual and that each agency provide complete and accurate information to Accounts and Control for financial reporting.

Auditee Response/Corrective Action Plan:

Department of Conservation

Department of Conservation

Contact Person: Will Harris, Dir. General Services, DOC
287-2215

The Department uses a sophisticated land database to keep track of its property. Land owned by the Department sometimes spans more than one town. Reports from the database by town showed the same parcel in its entirety in each town in which it was located thus creating a duplication. This duplication was discovered and has since been corrected.

Bureau of Accounts and Control

We are currently working on the fixed assets policy manual to clarify the reporting requirements. We have assigned a staff member to this effort and he is coordinating the efforts around physical inventories and timely reconciliation of the fixed assets system. Also, we are meeting with representatives of BGS and DFPS to clearly define the financial statement requirements and each agency's role in this process. Ultimately, we will establish a central point of contact for providing and reconciling this information.

This year we are incorporating expanded guidance in both the "general information" and "agency-specific instructions" sections of our fiscal year end closing package in order to ensure that agencies understand the need to report this information. We will follow up with agencies in year-end liaison meetings to further explain the closing package instructions.

Department of Economic and Community Development

(02-10) Office of Tourism and Community Development

<u>Finding</u>: Inadequate internal control over reporting of loans receivable

The Department of Economic and Community Development administers two programs that provide working capital, equipment, and real estate loans to businesses. The State records the disbursement of the loan proceeds as an expenditure when the funds are distributed to the sponsoring municipality. Revenue is recorded when the borrower makes periodic payments of principal and interest. However, Generally Accepted Accounting Principles (GAAP) require that receivables be recorded when loans are made, and that the amount of receivables be reduced when payments are collected. The financial statements must include the amount of loans outstanding as of the end of the fiscal year, reduced by an estimate of future uncollectible amounts. If the amount of the receivable and the allowance account are stated at the net amount, then the amount of the allowance must be otherwise disclosed in the face or notes to the financial statements. Interest income should also be recognized. The Bureau of Accounts and Control requires that the Department communicate information necessary to prepare GAAP financial statements.

On June 30, 2002, loans to be repaid to the State approximated \$8.5 million. Department personnel estimate that approximately \$2.1 million will be uncollectible. However, the Department communicated to the Bureau of Accounts and Control that the receivables balance was \$6.0 million rather than \$8.5 million less an allowance for uncollectible accounts of \$2.1 million. It is merely coincidental that the net receivables and allowance balance approximates the original amount communicated to the Bureau. Also, the Bureau had not adjusted the financial statements for the amount originally reported to them by the Department.

<u>Recommendation</u>:

We recommend that the Department of Economic and Community Development determine the proper balances for loans receivable, the allowance for uncollectible accounts, and interest income, and report this information to the Bureau of Accounts and Control. We also recommend that the Bureau reflect this information in the financial statements.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Orman Whitcomb, 624-9819

The Department of Audit has provided information to the OCD staff regarding the proper method of listing and reporting loans receivable prior to this audit. Last year in the process of instituting new procedures to comply with this issue, the OCD Financial Representative resigned. Unfortunately this happened just before the loans receivable report was due and that person had been assigned this duty. Being unable to fill this position due to the "hiring freeze," we were given permission to have the person in our Accountant II position take over the duties on an "acting" basis. Unfortunately, there is more work between the Financial Representative and Accountant II position than one person can complete. Therefore, the person responsible for

initial intake of our loan applications was asked to complete this report. Although a relatively new DECD employee, she completed some valuable research of historical data and discovered some errors in our receivables list and the report was filed. We suspected at the time, and had conveyed to the Department of Audit that there may be some additional adjustments necessary.

To complicate matters even more, the OCD had contracted with FAME for servicing of our loans about two years ago. Because we had a full staff and a very qualified (extensive experience with business analysis and loan servicing) new employee we decided to take back the responsibility of servicing our loans from FAME, obviously not realizing that two "key" people in the process would be leaving within six months. Since that time, several OCD staff members have been researching our loan portfolio actively looking for errors and we have started using a loan servicing software package. We anticipate that the involvement of additional staff and the new software will provide the means to complete the report for the end of this fiscal year as an accurate representation of our current loans receivable, uncollectible accounts and detail of principal and interest earned. These actions will provide a method to accurately maintain this information into the future.

<u>Bureau of Accounts and Control</u>

We will work with DECD to properly record these loans receivable.

Department of Environmental Protection

(02-11) Office of Management Services
Bureau of Remediation and Waste Management

<u>Finding</u>: Inadequate internal control over financial reporting

The Bureau of Remediation and Waste Management did not respond to a Statewide communication by the Bureau of Accounts and Control dated May 30, 2002, requesting information essential to the preparation of financial statements according to generally accepted accounting principles. Included in the information request was the requirement that agencies report the value of accounts receivable as of June 30, 2002 to the Bureau of Accounts and Control.

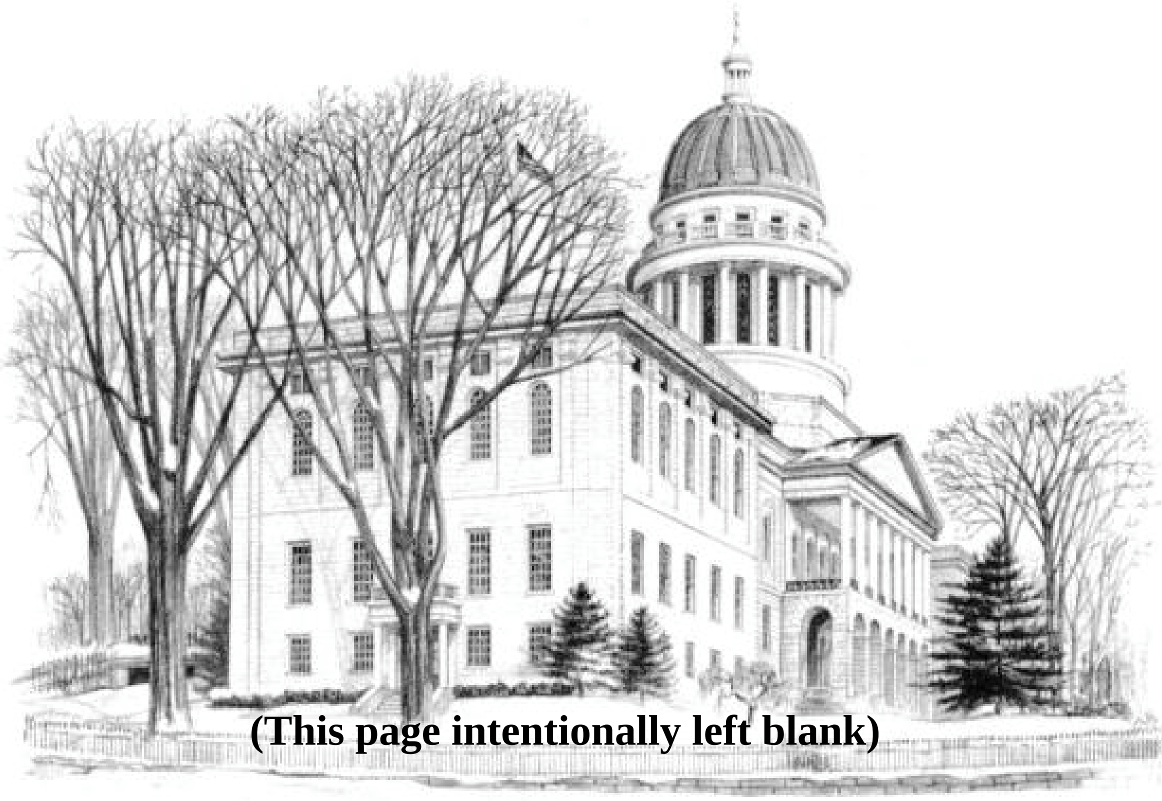
The Bureau of Remediation and Waste Management administers the Ground Water Oil Clean-up Fund. Included in the activities of this fund is the collection of a per barrel fee for petroleum based products imported into the State. Fees are due and usually collected by the State the month following import. On June 30, 2002, petroleum importers owed the State approximately $2.2 million for fees pertaining to May and June imports.

<u>Recommendation</u>:

We recommend that the Department of Environmental Protection communicate information to the Bureau of Accounts and Control that will ensure the preparation of financial statements in accordance with generally accepted accounting principles.

<u>Auditee Response/Corrective Action Plan</u>:

Due to the reporting requirements for terminal facilities, it is not possible for the Department to know what revenue will be received in the months of May and June. The Department will begin the practice of informing the Bureau of Accounts and Control of likely revenues for those months, based on receipts during the same period in the previous years and any other pertinent factors. The contact person is George Viles. Corrective action was taken as of May 31, 2003.



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Department of Human Services

(02-12) Division of Financial Services

<u>Finding</u>: Accounting for federal funds inadequate

The Department of Human Services does not have adequate systems and procedures in place to ensure that the federal funds are properly accounted for and expended in compliance with regulations.

The Department has not used the State's accounting system to establish a separate account for each program; "reporting organizations" are established for individual programs but combine into a single "appropriation organization," which controls the cash for multiple programs. The Department has not been able to provide a complete and accurate list of the accounts established and used for each program. It also does not always post transactions to the affected accounts but rather attempts to track the effect that the transactions would have had, and adjusts reports or other activity accordingly. This is particularly true for costs allocated through the Department's cost allocation plan. Those costs are significant as they include regional office costs and other costs that benefit multiple programs. Because the actual activity is not always posted, the accounting record of transaction activity and account balances is not complete or entirely reliable. The Department does not consistently review and document its reconciliations of its accounts.

The Department lacks co-ordination and communication between the individuals who are assigned responsibility for funds that are drawn and expenditures that are reported. This has resulted in funds of one program being used to fund expenditures of other unrelated programs. For one program (Temporary Assistance for Needy Families), $19 million more was requested than the Department reported as expended for program purposes. In fiscal year 2002, one other program (Title IV-E Foster Care) funded $1.9 million in expenditures for a closely related program. Over multiple years the same program also drew an additional $6.4 million more than it reported as expended. The control system at the federal level also does not match program draws with reported expenditures. Because multiple programs are on the same Letter of Credit, significant mismatches between cash requests and expenditures can occur before being questioned. Program funds have been drawn based on cash need within an account but not reconciled to program expenditures. The cash draws lose their identity to some extent once they are entered into the accounting system, because of the failure to establish a unique account structure for each program. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, Subpart C section 300.a, states that the auditee shall "Identify, in its accounts, all federal awards received and expended and the federal program under which they were received."

The Department has had an incomplete understanding of Cash Management Improvement Act requirements and has not complied with them. Federal cash draws cannot be readily associated with underlying expenditures.

The Department has not documented its use of accounts or the logic underlying certain established procedures. As the Department has experienced personnel turnover, institutional memory has been adversely affected. It can no longer explain why certain procedures are

followed, and does not have a complete understanding of the effects of some of those procedures. Accounting personnel do not have a written manual of financial procedures to follow. New personnel must learn as they go. Because certain procedures are unique to individual programs, the loss of experienced personnel results in oversights and errors. Individual accountants have responsibility for multiple programs. Five account managers are responsible for 86 federal programs, which include some of the largest and most complex programs in the State. Accounting personnel vary in their professional qualifications. The Department has had difficulty recruiting and retaining highly trained individuals. The time required to process routine transactions leaves little time to investigate or analyze unusual balances or to determine the cause of or to correct identified errors.

Management of certain programs is decentralized in regional offices. Program personnel and accountants do not always share a common understanding of how funds flow or the consequences of actions taken. Certain programs have not complied with eligibility requirements for program participation and have charged costs that are not allowable to the program.

The Department has filed reports that it cannot support with adequate documentation of the underlying costs. Supporting documentation is not well organized or consistently maintained. We identified some charges that were reported more than once and for more than one program. We also identified some charges that were allowable but that had not been reported for federal reimbursement. Reports frequently require revision following review by federal program personnel. The unsupported charges can result in reported expenditures being disallowed and money having to be returned or not being received.

Please note that this finding summarizes issues that are developed in other findings in this report.

Recommendation:

We recommend that the Department of Human Services:

- identify program activity with specific accounts,
- establish and maintain a chart of accounts,
- document its procedures,
- record all transactions in the accounting system,
- review and reconcile account activity,
- maintain neat and orderly supporting documentation for all reports filed,
- establish standards for consistent reporting and document retention,
- ensure that accounting personnel are trained and qualified,
- comply with Cash Management Improvement Act criteria,
- request federal program cash only for that program, and
- ensure that program personnel charge only allowable expenditures for eligible program participants.

Auditee Response/Corrective Action Plan:

Department of Human Services

Contact Person: John D. Mower

I have been taken aback by this finding since the Division's "administration of federal funds" has never been an Audit Department finding in the seventeen years that I have worked in the Division and we have been utilizing the same accounting practices to administer federal funds during that period.

- *Identify program activity with specific accounts:*

This recommendation to establish separate accounts for each Program or funding source would serve to simplify accounting and auditing. The expansion of accounts without more staff and resources could lead to more inadequate fund administration. This is because creating more accounts would require more accounting, more budgeting, thus more work. Also, this creation of more accounts would have to be approved by the Administration and the Legislature.

- *Establish and maintain a chart of accounts:*

The Department does not concur with the statement that it cannot provide a complete and accurate chart of account as we do have all of the report orgs applicable to each appropriation org. The Division has a database that is updated regularly and has printed out annually said Chart of Accounts.

- *Document its procedures:*

The Assistant Director of the Division has been tasked to compile a procedures manual, which is a work in progress. It is expected to be complete by the end of 2004.

- *Record all transactions in the accounting system:*

The Department does concur with that the actual cost allocation activity does not occur in MFASIS at the detailed or lower level that the Department of Audit requests. This would be a major change in current accounting practices in the Division of Financial Services and, again would require more staff and resources to track and process all the transactions necessary to satisfy this finding. If to satisfy this particular issue means transferring revenues to each individual reporting organization in MFASIS, this is a lot of work that would require even more staff.

- *Review and reconcile account activity:*

The Department, again, due to lack of staffing and resources, "does not consistently review and document its reconciliation of its accounts."

- *Maintain neat and orderly supporting documentation for all reports filed:*

The Department questions the materiality of this bullet. The Division of Financial Services has too heavy of a workload and not enough resources to neatly organize it's documentation to satisfy the Audit Department. However, the senior staff will be asked to do some self-analysis of their reporting requirements to come up with better ways to document.

- *Establish standards for consistent reporting and document retention:*

See the above response.

- *Ensure that accounting personnel are trained and qualified:*

The finding mentioned the Division of Financial Services has 5 Account Managers (Management Analyst IIs and Senior Staff Accountants). There are really only 4, as one works on the Cost Allocation Plan. Also, it is noteworthy that the qualifications for these senior positions are in question. The Department agrees these positions should be upgraded. Unfortunately, the Bureau of Human Resources, as recently as this month, disapproved FJA-1s to upgrade these senior positions to Financial Analysts, stating these positions were properly classified. We observe that at least one agency, with apparently much simpler accounting, has 3 Financial Analysts, and we will pursue this further. The Department has a very small Central Administration budget, and training funds are scarce. In C. 451 the Department of Administration and Financial Services has been tasked to see that agency fiscal staff have access to proper training.

- *Comply with Cash Management Improvement Act criteria:*

The Department does not concur with the statement that it has an incomplete understanding of the Cash Management Improvement Act. Occasionally, the agency has drawn down federal funds not in compliance with the CMIA Agreement. However this was to cover outstanding state obligations, and in order not to hold bills until the next scheduled draw down, per CMIA agreement. The agency has worked closely with the CMIA Coordinator at the State Treasurer's Office annually to revise the draw down methodology to fit the Departments cash needs. This has led to the Department alleviating the overwhelming majority of non-compliant drawdowns.

- *Request federal program cash only for that program:*

The Department realizes the communication / co-ordination between the one staff member who draws down all the agency's federal cash and the Accountant Managers who are responsible for the accounting of each program needed to improve and has been since several findings over the last few years have noted this deficiency. The Department does not concur with relating this communication issue with the overdraw of $19 million in TANF and $ 8.3 million in Title IV-E Foster Care as stated in this finding. A lack of communication / coordination was not the major factor contributing to these over draws. (See the specific responses to the specific findings.)

- *Ensure that program personnel charge only allowable expenditures for eligible program participants:*

The Department's program personnel are usually very aware of what is an allowable cost for their specific programs.

The Department has had a high turnover staff rate over the last few years due mostly to retirement of senior and long-time employees. It is calculated at 71%, over a two-year period. While it is true that a lot of institutional knowledge has left, it can also be said some of the new personnel are doing better accounting then these predecessors. The Department of Audit has also expanded their staff significantly, thus expanding the scope of their audit, and discovering multi-year issues that were not uncovered in prior audits.

The Division of Financial Services has not had an increase in staff in the seventeen years I have been here, while the number; complexity and dollar value of DHS Programs has increased dramatically. It will require significantly more staff to comply with this finding. The Division

personnel currently focuses on its massive daily workload and does not have the human resources for checks and balances, reconciliations and internal controls

Recently, there has been a movement by the state to increase oversight with a new agency and by increasing the staff in the Department of Administration and Financial Services in the area of internal control. While this may well be warranted, until there are more human resources to do financial work at the Department of Human Services not much can be improved.

(02-13) Division of Financial Services

Finding: Inadequate internal controls over subrecipient cash balances, reporting, and cash collection

Internal controls are inadequate to ensure that subrecipient cash balances for programs supported by State funds are not excessive, that reporting of amounts due the General Fund is accurate, and that excess cash held by subrecipients is subsequently collected. The Division of Financial Services of the Department of Human Services has not established adequate internal controls to ensure accurate recording and reporting of accounts receivable resulting from agreement settlements with subrecipients. The accounting for agreement settlements for programs supported by the General Fund results in the overstatement of revenue and expenditures, and the misclassification of agreement settlements between the General Fund and the Special Revenue Fund. Some amounts due were recorded in the Special Revenue Fund and not in the General Fund, from which the money was originally disbursed. Also, the current accounting methodology allows the Department to “re-spend” reimbursed amounts without additional budget authorization. Division personnel reported that it is not uncommon to receive reimbursements from subrecipients for which there is no record of a receivable in the State’s accounting system.

Program managers of the Department of Human Services have broad discretion over how annual agreement settlements with subrecipients are liquidated. These managers decide whether the subrecipient will be allowed to keep the balance to fund future operating needs or whether the subrecipient will be required to return the balance to the Department. In the case of programs supported by State funds, the Department does not sufficiently monitor subrecipient cash balances to ensure these balances are not excessive. For example, the Bureau of Elder and Adult Services reported that Bureau personnel do not require subrecipients of State funded grants to report cash balances when submitting the quarterly report of revenue and expenditures.

The Division does not regularly prepare a listing and aging of amounts due and overdue, and then reconcile the listing to the balance recorded in the accounting system. The listing prepared by the Division in response to this audit could, for the most part, be reconciled to the accounting system. However, both contained a material overstatement of $4,976,772. The overstatement resulted from the inclusion of two receivables that were known to be uncollectible as of June 30, 2002. One receivable for $2,688,100 was uncollectible because program personnel allowed the subrecipient to keep the predominantly State funds to support future operating needs. The other receivable for $2,288,672 was uncollectible because the subrecipient is no longer in business.

Department of Human Services

This business had originally been invoiced for failure to obtain a final audit in accordance with the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations.*

Recommendation:

We recommend that the State establish internal control procedures over agreement settlements, monitor subrecipient cash balances for State funded programs, and ensure accurate recording by fund for revenue, expenditures, and accounts receivable. Reimbursements made by subrecipients of General Fund programs should be credited to expenditures if the original payment was made in the current year, and should be an adjustment to the balance forward account if the original payment was made in a previous year.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

CSC - Contract Settlements:

Payments issued to contracted sub-recipients are initiated in two ways: (1) the automated contract payroll system which resides in the Maine Automated Child Welfare Information System, the primary method of payment; and (2) payment of hard copy invoices. The checks are actually issued by MFASIS, the state's IT financial system. No checks are issued within the Community Services Center.

The Planning & Research Associate position in the Service Center is the person assigned to, and responsible for, authorizing contract payments, based on the payment schedule/method prescribed in the individual contracts.

Checks received from sub-recipients in pre-audit contract settlements are received by the Contract Administrator identified in the contract. The Contract Administrator verifies the check amount with the Final Agreement Settlement Form (ASF) Pro Formas submitted by the sub-recipient at the close of the contract period. The Contract Administrator then forwards the check and a copy of the ASF Pro Formas to the Contract Manager assigned contract/contract audit resolution. The Contract Manager records the payment, places a copy of the check in the fiscal contract file that is sent to the Department's Division of Audit after settlement of the contract, and maintains a copy of the check and the ASF Pro Formas in the contract agency's audit file for reference at the time of audit resolution.

The Contract Manager then forwards the check, and a copy of the ASF Pro Formas to the Financial Manager who identifies the account(s) included in the contract to which the payment needs to be posted. The Financial Manager forwards the check, an authorization to deposit cover page that identifies the account(s) and amount(s) to be credited, and a backup spreadsheet of the deposit calculations (when multiple accounts are involved) to the Division of Financial Services, Cashiers Division for deposit.

Department of Human Services

<u>CSC - Cash Balances:</u>

Contract agencies must provide quarterly financial statements of contract income and expenses. If expenses are less than payments received from the Department, the next scheduled contract payment is adjusted downward, by account, to reconcile contract income/expenses.

<u>CSC - Reimbursements:</u>

The Community Services Center's general practice regarding contract settlements has been to recall all excess payment amounts at the close of the contract. (See attached CSC Action Transmittal #DCCS-CP-2001-07). Reimbursements made by sub-recipients of all General Fund and Federal Fund monies are credited to expenditures if the original payment was made in the current year, or as an adjustment to the balance forward account if the original payment was made in a previous year.

In PL2002 Chapter 559, An Act to Make Supplemental Appropriations and Allocations for the Expenditures of State Government -----for the Fiscal Years Ending June 30, 2002 and June 30, 2003, page 69, the State Legislature instructed the Department to allow contract agencies to carry forward contract cash balances into subsequent contracts for the same service, and to reduce the subsequent contract by the amounts carried forward. The budget document reduced the State General Fund appropriation by a target amount that the General Fund account is expected to "save" by this practice. The FY2003 de-appropriation for contract balance carryovers has been continued in the FY2004-2005 budget. The Community Services Center is complying with the Legislative mandate, and suspending its general contract carryover directive until the budget reduction targets are met.

(02-14) Community Services Center Division of Contracted Community Services

<u>Finding</u>: Improper transactions

An employee of the Department of Human Services, Division of Contracted Community Services, intentionally authorized payments totaling $434,062 for non-existent bills. The intent of the action was to prevent $322,915 in General Fund money from lapsing. The 27 checks were drawn from the General Fund ($322,915), the Federal Expenditure Fund ($1,012) and the Federal Block Grant Fund ($110,135). Of those payments, 16 were made with federal funds, and 7 of these ($86,030) were from the Social Services Block Grant funds. These checks were processed without legitimate obligations to the federal programs and with no intent to make payment to the payees. Rather then being mailed to the payees, the checks were returned to the employee, who held them in a desk drawer. The amount of the checks was based on balances remaining on encumbered contracts, which were about to lapse to the respective fund balances. Three months into the next fiscal year, the checks were voided, effectively making the funds available to the Division of Contracted Community Services for future use. All of the funds were redeposited into State accounts, but not into the same funds in the amounts as originally drawn. The General Fund received $134,792, the Federal Expenditure Fund received $62,659,

the Special Revenue Fund received $84,153, and the Federal Block Grant Fund received $152,458.

These transactions also resulted in federal funds being drawn without proper justification, and in violation of Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* and 31 CFR 205.20 which states:

> *Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of allowable indirect costs.*

The Schedule of Federal Financial Assistance was overstated by $111,147 for the period ending June 30, 2001, an amount that is immaterial to the schedule and the federal programs.

The Division of Contracted Community Services did not have effective controls in place to prevent checks from being sent to the employee without proper justification or approval from the Division of Financial Services. However, controls were developed soon after this issue was brought to the attention of management of the Department of Human Services.

Recommendation:

We recommend that the Division of Community Services comply with federal regulations by limiting its draws of federal funds to actual cash needs, and by using funds only for the benefit of the program for which they are drawn. We further recommend that the Department of Human Services complete its examination of the current procedures that enabled these transactions to be processed and establish internal controls to prevent a recurrence of this type of activity. We also recommend that the Department comply with State procedures regarding the lapsing of encumbered funds. Finally, we recommend that any funds that originated from the General Fund be returned to that fund.

Auditee Response/Corrective Action Plan:

The above incident was a one-time occurrence. The Community Services Center complied with federal regulations on federal drawdowns prior to this incident and has been in compliance since this incident.

The Department of Human Services has implemented internal controls within the Division of Financial Services to prevent the recurrence of this type of activity. Any payment (check) that normally is sent directly from the State Treasurer's office to the vendor, but is instead requested to be "flagged" to go to the employee initiating said payment, must be first justified in writing to the Finance Director or the Deputy Finance Director, and receive written prior approval.

Department of Human Services

The Department of Human Services is in compliance with state procedures regarding the lapsing of encumbered funds.
State General Funds related to this incident have been returned to the unappropriated fund balance of that fund.

(02-15) Bureau of Medical Services

Finding: Insufficient controls over accounts receivable

The Bureau of Medical Services of the Department of Human Services does not have procedures in place to reconcile the Bureau's accounts receivable balance to the accounts receivable balance in the State's accounting system. There is a variance of approximately $2,000,000. The Bureau does not have collection procedures in place to ensure that balances are actively pursued, nor to identify those balances that should be written off. The Bureau does not keep historical collection data records to assist in calculating an accounts receivable reserve amount.

The Commissioner of the Department of Administrative and Financial Services requires that Departments, institutions and agencies must periodically review outstanding receivables to ensure that all reasonable efforts are used to effect timely collection and that an "Accounts Receivable Aging Schedule" and an "Accounts Receivable Recommended for Charge Off" be submitted to the Bureau of Accounts and Control no later than April 30, 2002.

While the Division of Financial Services of the Department of Human Services has provided an aging schedule, there have been no accounts that have been recommended for charge off.

Recommendation:

We recommend that the Department periodically reconcile its accounts receivable balance to the State's accounting records. We recommend that the Bureau of Medical Services set up formal procedures for monitoring accounts receivable and collection practices in order to identify uncollectable accounts and to write off bad debts. We recommend that the Bureau track collection statistics in order to more accurately establish a reserve amount. We further recommend that procedures and policies be instituted for assessing interest and penalties on the accounts receivable balances. Finally, we recommend that procedures be established to ensure that providers with Medicaid bad debts do not begin filing claims under another Medicaid provider number.

Auditee Response/Corrective Action Plan:

Contact Person: Debbie Couture

With implementation of the Maine Claims Management System (MECMS), replacing the old MMIS system in Fall to Winter 2003-2004, the Bureau of Medical Services will run monthly

reports to reconcile the original accounts receivable against the total amount recouped to date. MECMS will enable the Department to offset against any accounts owed by a specific entity (EIN) in order to collect outstanding amounts due the State.

Until MECMS is operational, the BMS will set up an Access database for tracking all accounts receivable. Reports will be done on a monthly basis to monitor the status of all receivables. In addition, the BMS will explore assessing interest and penalties on accounts receivable balances that are in arrears.

(02-16) Division of Financial Services

Finding: Journal vouchers not adequately supported

Department of Human Services personnel prepared journal vouchers that did not have adequate supporting documentation. We tested 23 journal vouchers for the Medicaid program that totaled $36.3 million. Nine of these journal vouchers, which totaled $5.4 million, did not have enough support to explain why the journal vouchers were necessary and how the dollar amounts involved were calculated. In State fiscal year 2002, the amount of journal vouchers processed in the Medicaid program totaled $63.5 million.

Research performed by the Department of Audit confirmed that the reasons for, and amounts of, the transfers were reasonable. However, the Department should maintain documentation to support these reasons and amounts.

Recommendation:

We recommend that adequate support for journal vouchers be provided, which should include information such as why the journal was made and how the amounts involved were determined.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

This finding is essentially the same as (02-71) thus the same response applies. The documentation supporting the journal entry is not sufficient because the amounts are based on allotment shortfalls, not actual, identifiable expenditures, or the journal transfer is done at a higher level (appropriation org.), and, therefore, the detail level is not affected for reporting purposes.

Department of Inland Fisheries and Wildlife

(02-17) Bureau of Administrative Services

<u>Finding</u>: Inadequate internal controls over reporting of revenue and accounts receivable

The Department of Inland Fisheries and Wildlife did not report the balance of accounts receivable to the Bureau of Accounts and Control as of June 30, 2002.

In fiscal year 2002, the Department collected approximately $17 million from the sale of fishing and hunting licenses and from the issuance of registrations for recreational vehicles such boats, snowmobiles, and all-terrain vehicles. Agents of the State, such as town offices and private businesses, collect the majority of these fees. These entities submit cumulative receipts to the Department in the month following collection from the licensee or registrant.

Generally accepted accounting principles require that fees collected by agents of the State be included in revenue and accounts receivable in the accounting period that the sale of the license or registration occurred. As of June 30, 2002, amounts collected by agents but not yet received by the Department exceeded $2.2 million.

<u>Recommendation</u>:

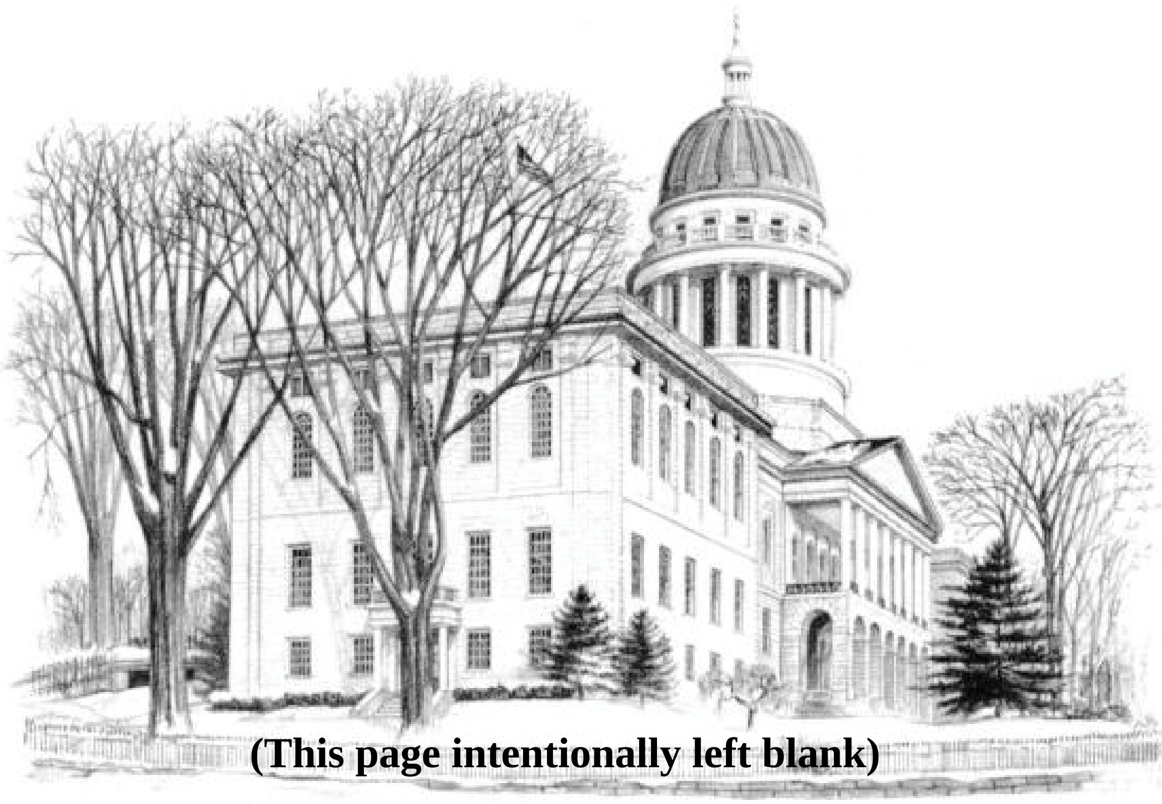
The Bureau of Administrative Services of the Department of Inland Fisheries and Wildlife should establish procedures to properly record revenue and receivables in the financial statements.

<u>Auditee Response/Corrective Action Plan</u>:

Contact person: Donald R. Ellis Sr., Chief Accountant - 287-5223

The Department was under the impression that only General Fund receivables needed to be reported, and therefore, the Department identified $1 million in General Fund accounts receivable to be included in the financial statements. An additional $1.2 million in dedicated revenue, and other revenue to be journaled to other agencies, was inadvertently not included.

Beginning with FY-03, Donald R. Ellis Sr., Chief Accountant, will include these other revenues when determining the total of accounts receivable to be reported to Accounts and Control.



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Judicial Branch

(02-18) Administrative Office of the Courts

Finding: Inadequate internal control over fines and fees receivable

The Administrative Office of the Courts (AOC) was unable to provide a detailed aged listing of fines and fees receivable as of the end of the fiscal year for amounts accounted for in the Maine Judicial Information System (MEJIS), and did not have a record of the total receivables. Beginning in fiscal year 2002, generally accepted accounting principles require that accounts receivable, less an allowance for uncollectible accounts, be accounted for as an asset in the Statement of Net Assets. For financial statement purposes, AOC and the Bureau of Accounts and Controls prepared an estimate of $16,600,000, less an allowance for uncollectible accounts of $12,900,000.

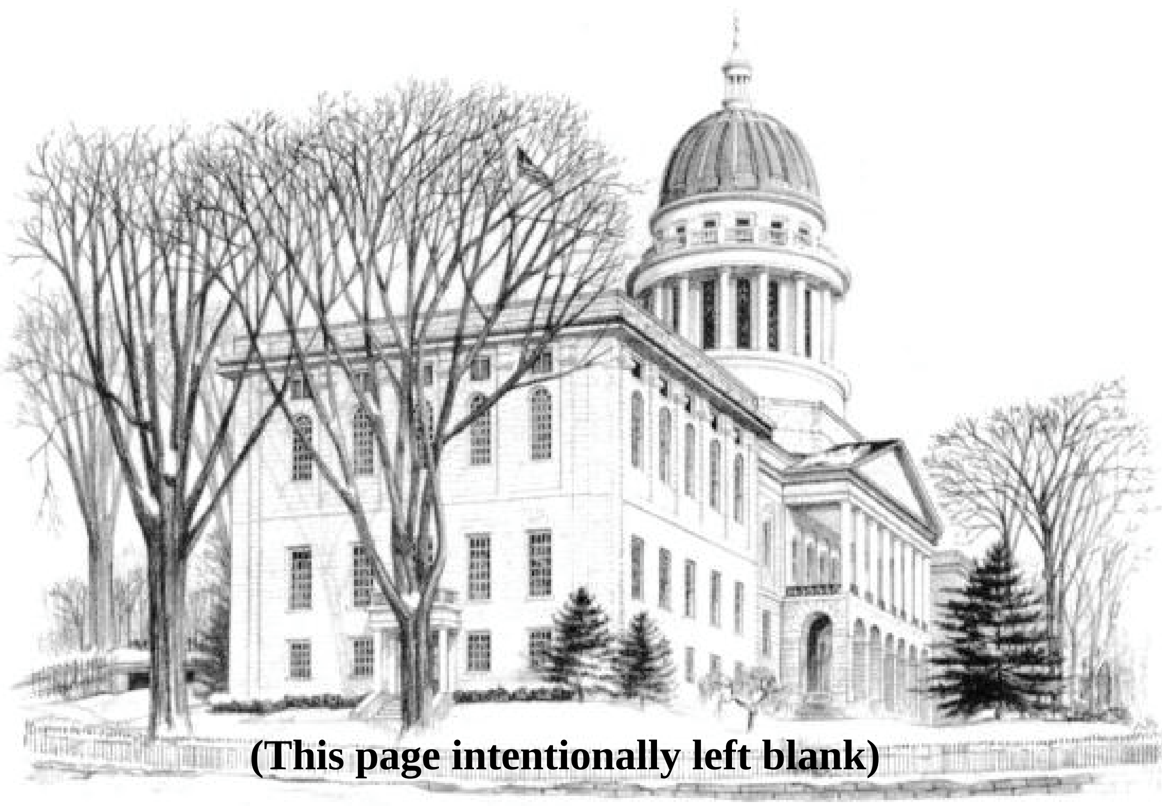
Although the Judiciary has procedures in place to detect and collect individual overdue accounts, it does not appear that procedures are in place for management to monitor the trend and overall age of overdue accounts. Also, the MEJIS system has not yet been programmed to provide a listing and summary of aged fines and fees receivable.

Recommendation:

We recommend that the Maine Judicial Branch develop internal control procedures that will ensure the accurate reporting and aging of all accounts receivable, and the summary communication of aged balances to management.

Auditee Response/Corrective Action Plan:

The Judicial Branch agrees with the recommendation stated by the State Audit Department and will develop an aging of all accounts receivable at the end of each fiscal year so that reporting of accounts receivable will be accurate. This procedure will be in place for the fiscal year end of 2003. This aging will be reported to management to monitor trends and overdue accounts. The name of the contact person is Ellen Hjelm.



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Department of Public Safety

(02-19) Division of Administrative Services

<u>Finding</u>: Inadequate internal accounting controls over cash seized from citizens

As of June 30, 2002, there is an unreconciled difference of $76,925 between detail records maintained by the Administrative Services Division (ASD) of the Maine Drug Enforcement Agency and the Bureau of State Police, and the State's accounting system, MFASIS. While MFASIS records indicated that $411,218 seized from citizens remained outstanding, summaries prepared by ASD indicated that seizures awaiting a court ruling amounted to $488,143. ASD personnel were not able to identify the cause of the discrepancy, and routine procedures are not in place to reconcile the MFASIS balance to detailed agency listings.

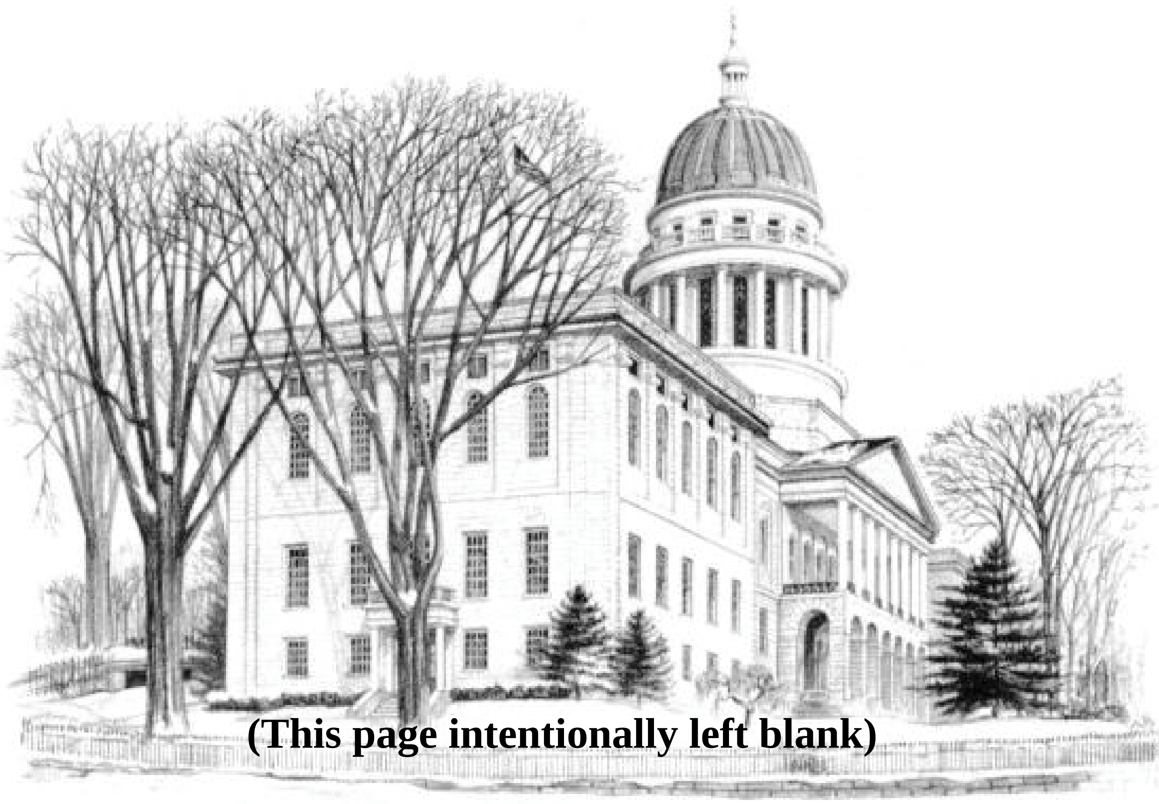
The Maine Drug Enforcement Agency and the Bureau of State Police periodically seize cash from persons believed to be engaged in criminal activity. The cash is deposited into the State Treasurer's cash pool when seized, and accounted for as a payable to the citizen. If the court determines that the cash should be returned to the citizen, the State issues a check and the liability is removed from the State's accounting records. If the court determines that the citizen will forfeit the cash, the State is allowed to keep the amount seized. The State then records the amount as revenue in the Special Revenue Fund, and the liability to the citizen is removed from the State accounting records.

<u>Recommendation</u>:

Since cash seizures are inherently susceptible to misappropriation, strong internal control procedures should be established. We recommend that ASD regularly reconcile the account.

<u>Auditee Response/Corrective Action Plan</u>:

Administrative Services staff is currently working on identifying the discrepancy between the official MFASIS records and the internal database. As of April 30, 2003, the discrepancy has been reduced to $47,464. The planned action is to identify the entire amount before June 30, 2003. A process is currently in place to reconcile the account on a monthly basis to prevent a discrepancy from building again. Accounting Technician Traci Willis will handle the monthly process to ensure accurate records in the future.



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Department of the Secretary of State of Maine

(02-20) Bureau of Motor Vehicles

Finding: Inadequate internal control and disclosure over revenue reporting

The Bureau of Accounts and Control did not record a receivable amount of $1,597,559 reported by the Bureau of Motor Vehicles (BMV) as earned but not yet collected. Also, the Bureau of Accounts and Control recorded the balance of collected but not earned revenue (deferred revenue) as $2,333,530, rather than the correct balance of $4,350,420 reported by BMV.

In addition, not all unearned revenue is included in the financial statements. BMV personnel indicated that the information system does not provide the data needed to identify or estimate the amount of deferred revenue that results when multi-year tractor-trailer registrations are paid in full in advance.

Recommendation:

The Bureau of Accounts and Controls should properly record earned and unearned revenue adjustments reported by the Bureau of Motor Vehicles.

Auditee Response/Corrective Action Plan:

Department of the Secretary of State

The Bureau of Motor Vehicles is going through a computer migration which will provide the capabilities needed to provide the detail information that is necessary to record and report revenues collected as recommended above. The anticipated implementation of the new computer system is expected during fiscal year 2004. The change in the method of recording earned, unearned and deferred revenue is anticipated to begin by January 1, 2005.

Bureau of Accounts and Control

Our closing package did not identify the revenue stream associated with the outstanding receivable balance as one specifically requiring accrual. We are clarifying the guidance in our closing package to require accrual of outstanding receivables for all revenue streams of $1 million or more annually. Our closing package does require the agency (BMV) to provide the balance of deferred revenue at year end, which BMV provided. We inadvertently entered the new (FY 02 only) additions to deferred revenue rather than the accumulated amount through the end of FY 02. Both amounts were provided by BMV. In essence, the control system around acquiring the information worked, but simple human error caused us to report the incorrect amount.

Department of the Secretary of State of Maine

(02-21) Bureau of Motor Vehicles

<u>Finding</u>: Inadequate control over reporting and budgeting InforME service fees

InforME is the Internet gateway that allows businesses and individuals to interact with State government electronically. The State contracts with a private enterprise to provide this service with oversight by the InforME Board.

In some cases, InforME retains negotiated service charges by offsetting revenue collected in behalf of the State. These fees are recorded neither in the State budget and accounting system nor or in the financial statements. In fiscal year 2002, the fees amounted to $983,299.

<u>Recommendation</u>:

Service charges paid to InforME should be recognized in the State budgeting system, accounting system, and in the financial statements.

<u>Auditee Response/Corrective Action Plan</u>:

<u>Department of the Secretary of State</u>

The Bureau of Motor Vehicles negotiated a service level agreement with InforME which was approved by the InforME Board. The distribution of fees collected were incorporated into the service level agreement signed in April 1999 and renewed in April 2002 with the same terms and conditions. The State portion of fees collected, as provided in the agreement, were recorded into the State budget and accounting systems. Fees retained by InforME are not received by or paid by the State and so are not reflected in the state budgeting system, accounting system or financial statements.

Department of Transportation

(02-22) Bureau of Finance and Accounting

<u>Finding</u>: Assets not recorded on State records (Prior Year Finding)

The Department of Transportation's system of internal control was insufficient to capture all of the assets that should be recorded in the accounting records of the State of Maine.

The State of Maine participated in a public/private project to construct a cargo pier in Searsport at Mack Point. Those assets were not completed as of June 30, 2002; however, the work-in-process value of $2,954,791 should have been recorded in the accounting records of the State of Maine. Title 5 M.R.S.A. § 4424 states that all property owned by and in the name of the Maine Port Authority is to be considered as the property of the State of Maine until transfer has been made. To our knowledge, transfer has not been made; therefore, those assets should be considered property of the State of Maine as of June 30, 2002.

The State of Maine also acquired two parcels of land associated with the Deblois Flight Strip for $1. The acquisition is considered a gift purchase; therefore, the airport should have been recorded in the accounting records at fair market value. However, no entry was made.

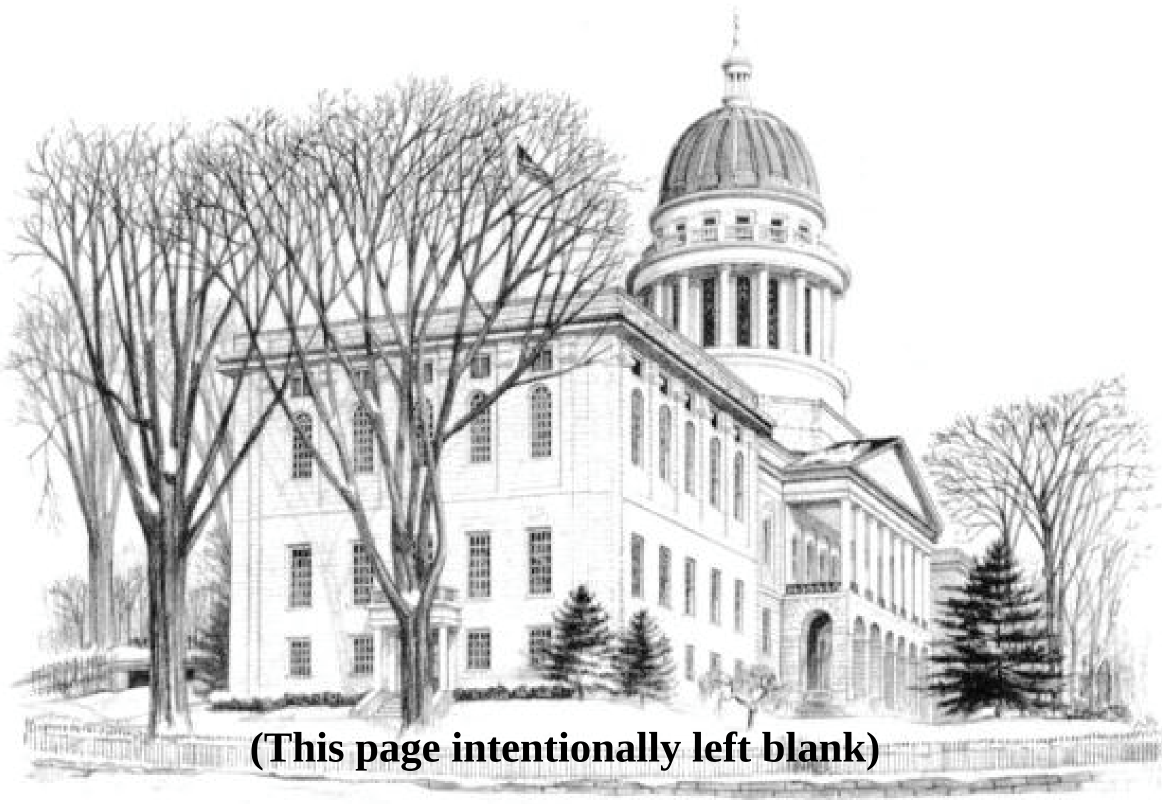
<u>Recommendation</u>:

We recommend that the Department of Transportation develop a system of controls that will ensure that its fixed asset records are complete and accurate.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Tammy Chase - 624-3123

We concur with the finding. The cargo pier at Mack Point and Deblois Flight Strip will be recorded as assets of the Department. Fixed asset procedures have been developed and implemented to ensure that asset records are complete and accurate for fiscal year ending June 30, 2003.



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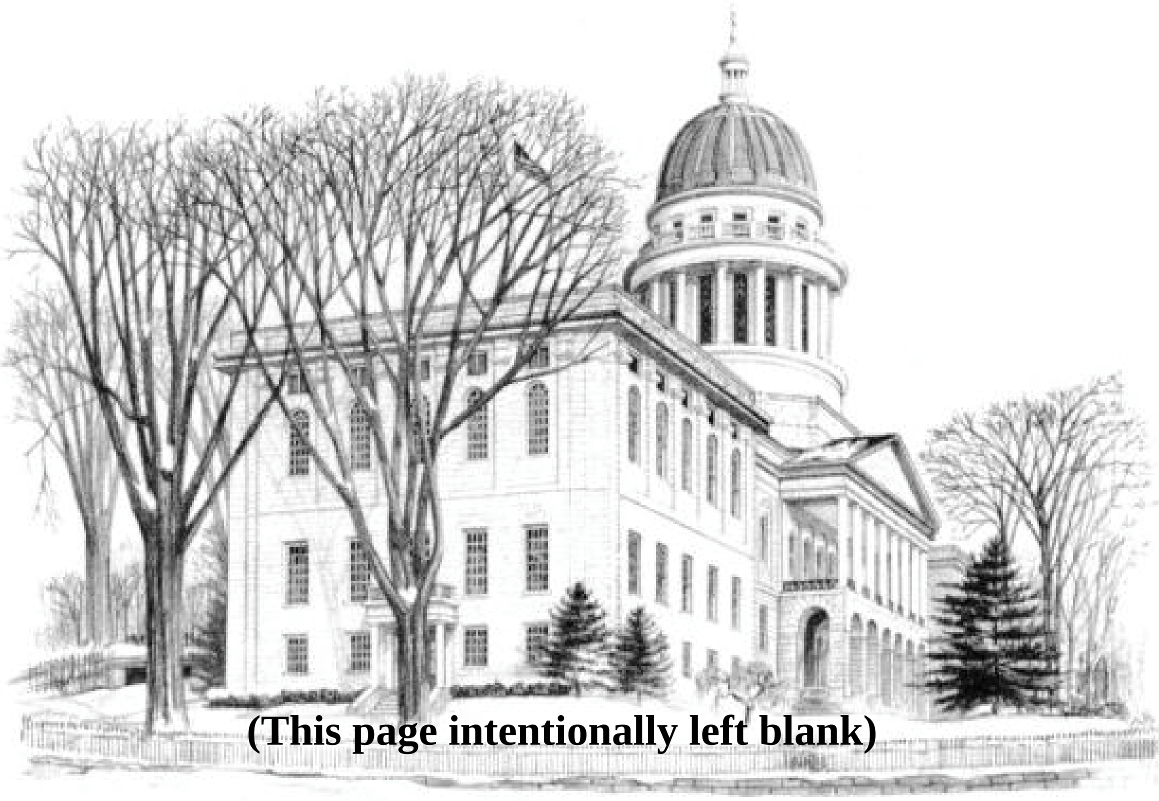
STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

Section III - Federal Award Findings and Questioned Costs



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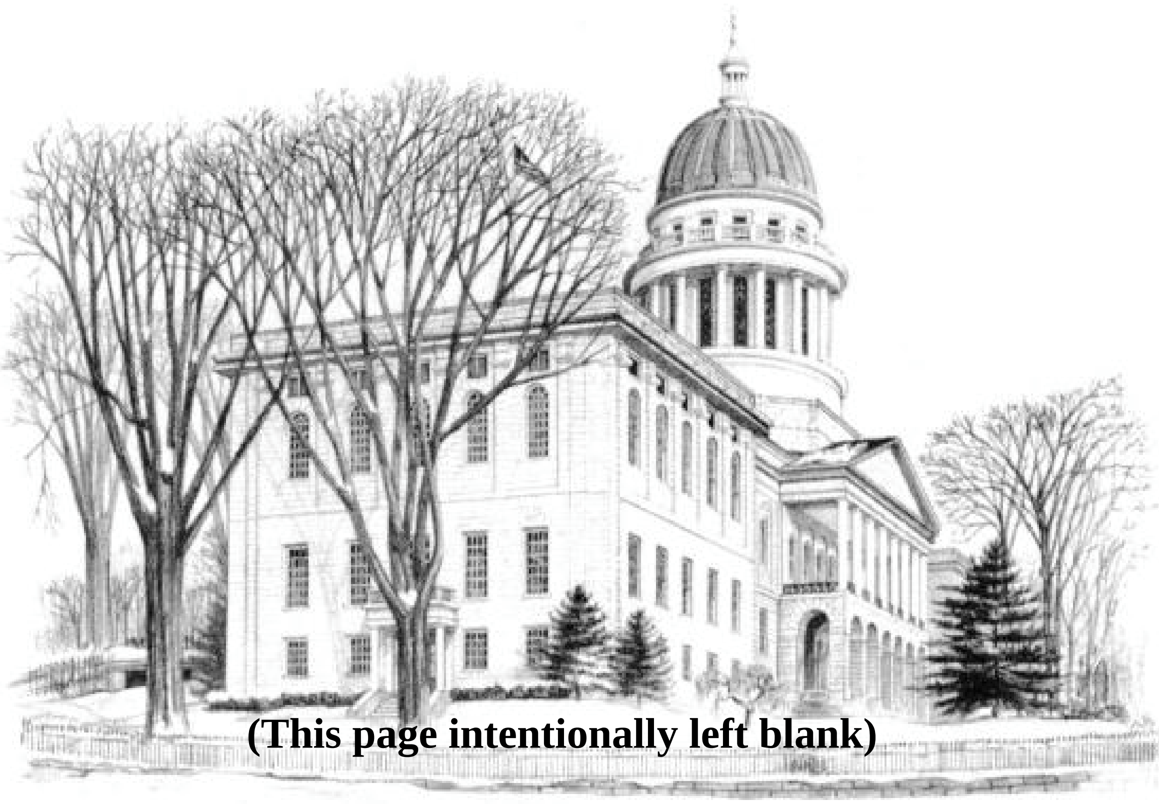
State of Maine
Department of Behavioral and Developmental Services

Summary of Federal Findings

We found that the Office of Substance Abuse of the Department of Behavioral and Developmental Services did not expend federal funds in accordance with the Cash Management Improvement Act Agreement, which requires that funds be disbursed within two days from the time that the federal funds are deposited.

The Office reports that the issue has been resolved.



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Department of Behavioral and Developmental Services

(02-23) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant
CFDA#: 93.959 **Questioned Cost:** None

Federal Award Number: 00 B1 ME SAPT-01

Finding: Non-compliance with cash management requirements (Prior Year Finding)

The Office of Substance Abuse did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act Agreement for the Substance Abuse Block Grant. Failure to abide by provisions of the Agreement may result in excess interest costs being borne by the State.

The Agreement requires that funds be disbursed within two days of time of deposit. The time that is used for standard accounting system controls such as approvals and authorization, procedures for processing federal cash drawdowns, and processing of payment vouchers makes it nearly impossible to meet the two-day requirement.

The Office of Substance Abuse reports that for fiscal year 2003, this issue has been resolved. However, the condition still existed during the fiscal year subject to audit.

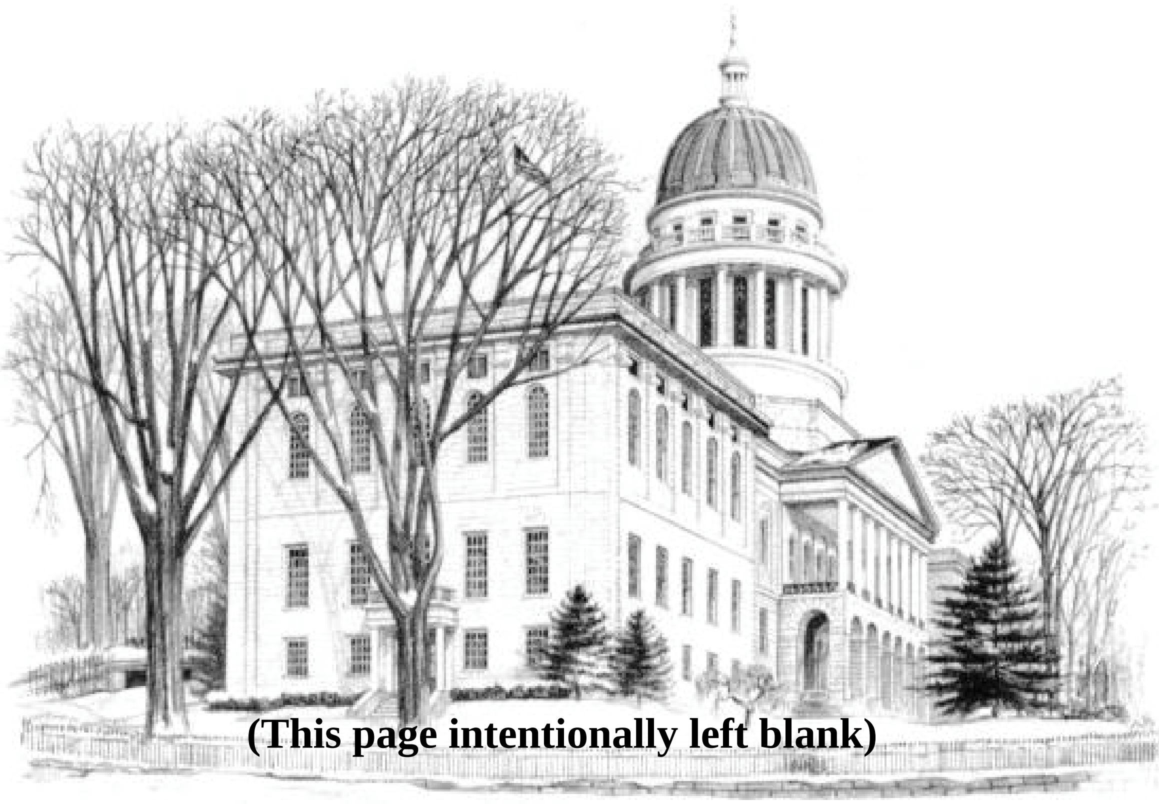
Recommendation:

Although Block Grants for the Prevention and Treatment of Substance Abuse, CFDA 93.959, is not included in the 2003 Cash Management Improvement Act Agreement, the Office of Substance Abuse must continue to work with the State Treasurer's and Controller's Office to attain compliance with 31 CFR 205 Rules and Procedures for Efficient Federal – State Funds Transfers.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Toothaker 287-6237

OSA was able to change to the estimated revenue drawdown method during the current year. This has allowed us to comply with cash management provisions as well as contract payment dates in provider agency contracts. We have been informed by Treasury and the Controller's Office that we are no longer covered by the Cash Management Improvement Act (CMIA) Agreement so we will no longer be able to use this drawdown method, effective July 1, 2003. Unless we are able to submit bills without immediate cash availability, it will be difficult to fully comply with both cash management provisions and contract payment requirements.



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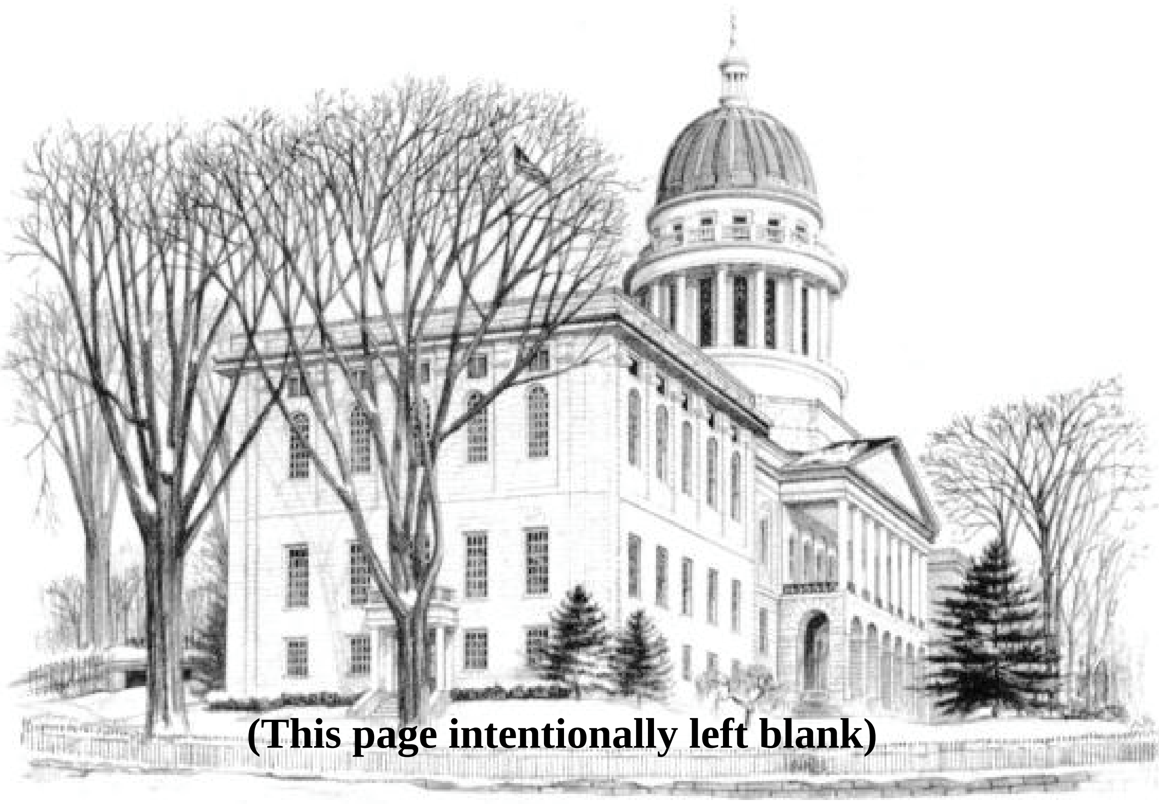
State of Maine
Department of Defense, Veterans and Emergency Management

Summary of Federal Findings

We found deficiencies in two federal programs, the National Guard Operations and Maintenance Projects program and the Maine Readiness Sustainment Maintenance Center program. The most significant problem was the Department's control over its management of federal cash. The Department kept federal cash too long before expending it, and had cash balances that varied between large positive and negative amounts throughout the year. There is $270,000 in cash from federal reimbursements that we have recommended be returned to the General Fund, from which the original disbursements appear to have been made. There is an additional balance in a federal account of approximately $300,000 that the Department believes accumulated from past errors in requesting reimbursement and/or accounting for federal cash advances. The Department is unable to justify retaining this cash. Until the exact amount is determined, we question the approximate amount of $300,000.

The Department violated State budgetary controls by using estimated revenue, authorized for a specific federal program, for another federal program. The amount of funds improperly used, but later reimbursed, was $192,995.

Maine Readiness Sustainment Maintenance Center: We question $300,000.



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Department of Defense, Veterans and Emergency Management

(02-24) Military Bureau

National Guard Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA 17-02-2-1000

Finding: Improper account usage

During fiscal year 2002 the Department of Defense, Veterans and Emergency Management expended $192,995 in support of the National Guard Civilian Youth Opportunities program from the Federal Expenditures Fund account for the National Guard Operations and Maintenance program. The Department later transferred the expenditures to the correct account. The Department used the account in this manner to take advantage of estimated revenues recognized specifically for the National Guard Operations and Maintenance program. This account activity constitutes a violation of State budgetary controls.

Recommendation:

We recommend that the Department use the Federal Expenditures Fund account established for the National Guard Operations and Maintenance program to recognize revenue and expenditures of that program, and cease the use of other accounts for that purpose.

Auditee Response/Corrective Action Plan:

Contact Person: Roberta Creamer, 626-4493

The audit finding has been corrected. The corrective action that took place required the use of advances from the National Guard Bureau. Beginning in January 2003, advances have been issued resulting in the audit finding being corrected.

Department of Defense, Veterans and Emergency Management

(02-25) Military Bureau

National Guard Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA 17-02-2-1000

Finding: Inadequate internal control over cash management (Prior Year Finding)

The Department of Defense, Veterans and Emergency Management failed to comply with requirements of the fiscal year 2002 Cash Management Improvement Act (CMIA) Agreement. The agreement required that cash drawn for the National Guard Operations and Maintenance Projects program be based on the average clearance method. The average number of days of cash on hand was computed for three months as detailed below:

Month	# of Days
July 2001	30.17
Aug. 2001	17.87
Dec. 2001	-14.85

Daily cash balances varied between large negative and positive amounts throughout the year, indicating inconsistent application of cash management controls. Revenue recognition was not always performed in a timely manner. Internal controls were not sufficient to ensure compliance with cash management requirements.

Recommendation:

We recommend that the Department ensure that cash is managed according to the provisions of the CMIA agreement.

Auditee Response/Corrective Action Plan:

Contact person: Linda Gosselin, 626-4346/Roberta Creamer, 626-4493

The Department is now in the process of having $00 balances in the affected accounts. Advances are asked for weekly to process the bills that are on hold on the MFASIS system. When bills are processed the balances in the accounts should again zero out. This continuation should result in a clearing of all monies.

Department of Defense, Veterans and Emergency Management

(02-26) Military Bureau

National Guard Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** None

Federal Award Number: DAHA 17-02-2-1000

Finding: Non-federal cash balance in the federal expenditures fund

At May 1, 2003, the Department of Defense, Veterans and Emergency Management had a balance of approximately $270,000 in non-federal cash in the Federal Expenditures Fund account for the National Guard Operations and Maintenance Projects grant. The balance apparently accumulated over several years from past accounting practices whereby federal reimbursements were credited to the federal account even though the original disbursement may have come from the General Fund.

Recommendation:

We recommend that the Department transfer all non-federal cash in the Federal Expenditures Fund account to the General Fund, after conferring with the State Budget Officer.

Auditee Response/Corrective Action Plan:

Contact Person: Roberta Creamer, 626-4493

The Department concurs with the finding that approximately $270,000 in the federal expenditures fund account for CFDA 12.401 is excess. The Department is undertaking an internal accounting review to determine if this amount should be returned to the General Fund or to the United States Property and Fiscal Office (USPFO). Upon completion of our review, our recommendation will be reviewed by both the Budget Office and the USPFO and the funds transferred to the appropriate account(s). This should be completed by June 15, 2003.

Department of Defense, Veterans and Emergency Management

(02-27) Military Bureau

Maine Readiness Sustainment Maintenance Center
CFDA#: 12.999 **Questioned Costs:** None

Federal Award Number: DAHA 17-02-2-3035

Finding: Inadequate internal control over cash management (Prior Year Finding)

The Department of Defense, Veterans and Emergency Management did not minimize the amount of time between the receipt of federal cash and associated expenditures as required by 31 CFR 205.20. The average number of days of cash on hand for 8 months were as detailed below:

Month	# of Days
July 2001	13.95
August 2001	7.25
October 2001	-20.22
November 2001	-8.43
December 2001	-14.01
January 2002	-8.64
February 2002	-8.61
June 2002	-8.17

Daily cash balances also varied between negative and positive amounts throughout the year, indicating inconsistent application of cash management controls. Excessive delays between the time of qualifying expenditures and requests for reimbursement were observed. Communication of cash management requirements does not appear to have been made to relevant personnel. Internal controls were not sufficient to ensure compliance with cash management requirements.

Recommendation:

We recommend that the Department minimize federal cash on hand as required.

Auditee Response/Corrective Action Plan:

Contact Person: Roberta Creamer, 626-4493

The RSMS account is now utilizing advances and reconciliations. The funds are paid to RSMS as payment for contract services when those services are billed. Advances are requested when the payments are due and no excess funds are residing in this account as has happened in the past.

Department of Defense, Veterans and Emergency Management

(02-28) Military Bureau

Maine Readiness Sustainment Maintenance Center
CFDA#: 12.999 **Questioned Costs:** $300,000

Federal Award Number: DAHA 17-02-2-3035

Finding: Excess federal funds in an account

At May 1, 2003, the Department of Defense, Veterans and Emergency Management had a cash balance in excess of $300,000, which it can not justify retaining, in the federal account for the Maine Readiness Sustainment Maintenance Center program. The Department believes that the cash balance resulted from past inaccuracies in requesting reimbursement and/or accounting for cash advances from the federal government and should be returned. Continued possession of this federal cash by the State violates Article V of the Cooperative Agreement (DAHA 17-02-2-3035). Department personnel are currently researching the exact amount of the excess cash. Until the exact amount is determined, the approximate amount of $300,000 is questioned.

Recommendation:

We recommend that the Department determine the excessive funds on hand and remit them to the federal granting agency.

Auditee Response/Corrective Action Plan:

Contact Person: Roberta Creamer, 626-4493

The excess funds identified in this finding are being maintained until the National Guard Bureau rules on an appeal on three reimbursable items. Upon receipt of the response to our appeal, any remaining funds will be remitted to the USPFO.

Department of Defense, Veterans and Emergency Management

(02-29) Military Bureau

Maine Readiness Sustainment Maintenance Center
CFDA#: 12.999 **Questioned Costs:** None

Federal Award Number: DAHA 17-02-2-3035

Finding: Lack of controls over compliance with suspension and debarment requirements

The Department of Defense, Veterans and Emergency Management did not obtain signed certification statements regarding suspension and debarment for any of the three vendors that were tested who had contracts valued over $100,000, despite the fact that the Department developed certification statements that are required to be signed and returned.

Title 32 CFR 33.35 states:

> Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs

Recommendation:

We recommend that the Department obtain the required certifications.

Auditee Response/Corrective Action Plan:

Contact Person: Robert St. Pierre, 626-4461/Roberta Creamer, 626-4493

This finding has been corrected. The Department certification statement will be signed by all future vendors with contracts valued over $100,000. Additionally, the vendors identified in the finding have subsequently been approved.

State of Maine
Department of Education

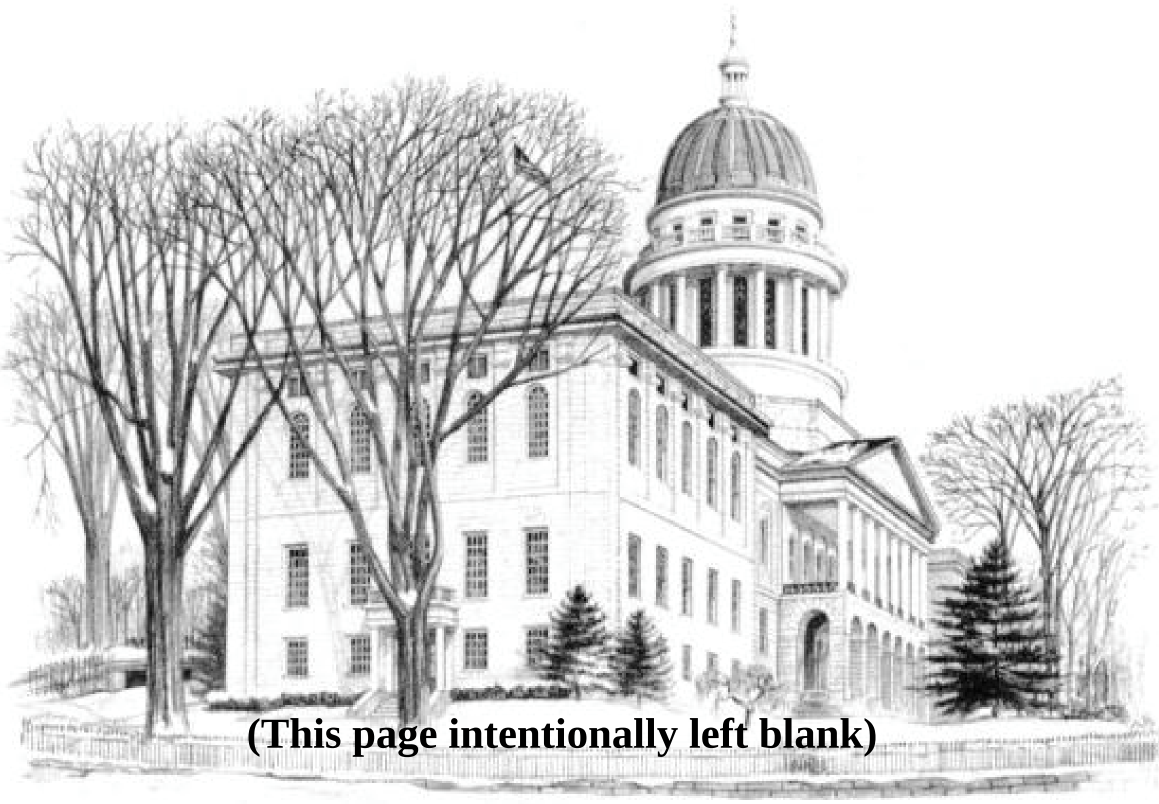
Summary of Federal Findings

We found deficiencies in the financial management of three federal programs, Title I Grants to States, Special Education Grants to States and the Child Nutrition Cluster Program. We also noted deficiencies in systems of control that affect many federal grants.

Most of the federal grant funds that the Department receives is sub-granted to local school administrative units. We found that the Department did not properly monitor subrecipients' compliance with Title I program requirements and federal "maintenance of effort" requirements.

We found that the Department did not properly monitor subrecipients' cash, and that the Department itself had excess federal cash on hand.

There were discrepancies between the Department's grant accounting subsystem and the State of Maine's principal accounting system. In addition, supporting documentation was not retained for an amount of $111,090 that was reported as liquidated obligations to the federal government.



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Department of Education

(02-30) Office of Compensatory Education

Title I Grants to LEAs
CFDA#: 84.010 **Questioned Costs:** None

Federal Award Number: S010A010019

Finding: Site visits not made

During fiscal year 2002, the Department of Education did not complete any site visits to schools specifically to monitor subrecipient compliance with program requirements, per established control procedures. The Department had completed a five-year cycle of visits in the prior year.

Recommendation:

We recommend that the Department re-establish scheduled monitoring visits as a control measure to ensure compliance with federal and state regulations and requirements.

Auditee Response/Corrective Action Plan:

A process to monitor districts/schools for compliance with the No Child Left Behind Act has been developed by the Title I Office. Pilot visits to four districts have been scheduled for this fiscal year, 2002-03. The process will be reviewed in May 2003 and all districts will be scheduled for review during this authorization.

The target date for completion of the corrective action is fiscal year 2002-03.

The individual responsible for implementing and monitoring the corrective action is Kathryn Manning, Coordinator, Compensatory Education, 624-6705.

(02-31) Bureau of Finance

Various
CFDA#: 84.010, 84.027, 10.555 **Questioned Costs:** None

Federal Award Number: Various

Finding: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

For three of the five federal programs subject to audit, the Department of Education did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act (CMIA) Agreement.

Department of Education

The CMIA Agreement specifies the use of average clearance funding patterns for the programs in question. Average clearance funding requires disbursement of funds four days prior to drawing those funds from the federal government. Controls did not ensure compliance for the programs tested.

The average number of days from the date of disbursement to the draw of federal funds was as follows:

CFDA#	Grant Name	Non-Compliant Draws	Average Days
84.010	Title 1 Grants to LEAs	8 of 11	plus 3.0 days*
84.027	Special Education-Grants to States	8 of 10	plus 1.5 days
84.048	Vocational Education-Grants to States	**	N/A
84.340	Child Size Reduction	**	N/A
10.555	National School Lunch Program	8 of 12	0.0 days

*indicates that drawdown occurred 3 days prior to disbursement.
**no exception noted.

Recommendation:

We recommend that the Department establish and implement controls to ensure compliance with cash management requirements.

Auditee Response/Corrective Action Plan:

The three programs mentioned above were placed on estimated revenue during fiscal year 2002. We have begun monitoring disbursements versus draws on a monthly basis and discuss any problems during staff meetings.

This corrective action was implemented during fiscal year 2002.

The individual responsible for implementing and monitoring corrective action is Lesley Clark, Chief Accountant, School Support Services, 624-6866.

(02-32) Division of Special Services

Special Education Grants to States
CFDA#: 84.027 **Questioned Costs:** None

Federal Award Number: H027A010109A

Department of Education

<u>Finding</u>: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

The Department of Education did not compare budgeted expenditures of all subgrantees for the current grant year to actual expenditures of the previous grant year, as required.

According to 34 CFR 300.231, the State must be satisfied that the Local Education Agencies (LEAs) are meeting the maintenance of effort requirement for the education of children with disabilities. That is, the total amount, or average per capita amount, of State and local school funds budgeted by the LEA for the current fiscal year must be at least equal to the total amount, or average per capita amount, actually spent for the same purpose in the previous year. Allowances can be made under some circumstances.

<u>Recommendation</u>:

We recommend that the Department implement measures to ensure compliance. These measures should include monitoring the LEAs budgeted expenditures for the current period and actual expenditures for the prior period, and ensuring that LEAs report their budgeted local special education expenditures.

The Department should have adequate documentation on hand to demonstrate that the maintenance of effort calculation has been performed. This documentation should indicate that deviations are investigated and allowable deviations are supported.

<u>Auditee Response/Corrective Action Plan</u>:

Computer printouts are generated by this Department but not until after December when all expenditures are completed and reports are submitted to the Department. The print-out is a comparison of budget to previous year actual. We review the school units that did not budget at or above the previous year's actuals. By then we are in the middle of meeting the child count and reporting requirements which takes us until April. In April we are then preparing for workshops for systems operators.

The issue is not that we don't have control procedures in place but rather it is our ability to maintain those procedures. It is an extremely labor intensive effort. Currently, we are receiving incomplete budgeted figures from the EF-M-46 to conduct this analysis and districts are not being forced to complete the information.

For fiscal year 1999-00, the Department reviewed each school unit for the maintenance of effort requirement, performed follow up with each school unit, drafted letters of follow-up with those found to be in noncompliance, and analyzed and collected responses. This was conducted on actual to actual since we had many school units not producing budgeted figures. This information was forwarded to the U.S. Department of Education, Office of Special Education Programs and accepted by them since all units had legitimate reasons for the variances. This

office responded to Audit Control #01-00-1814 for audit period 7/1/99 to 6/30/00 that recommended the EF-S-02 and EF-S-07 reports be adjusted to allow school units to provide reasons why their expenditures were less than the previous year.

We will review actual to actual for 2000-2001, 2001-2002 since the budgeted information is not available and the actual to budget analysis is only for eligibility to receive a grant. It may be necessary to request that this information be reported on the EF-S-02 rather than on EF-M-46 which is where it should currently be reported but is not.

The target date for completion of the corrective action is fiscal year 2003.

The individual responsible for implementing and maintaining the corrective action is John Kierstead, Consultant, Exceptional Children, 624-6650.

(02-33) Division of Food and Nutrition Services

Child Nutrition Cluster Program
CFDA#: Various **Questioned Costs:** None

Federal Award Number: 4ME300301

Finding: Cash balance negative; financial reports not in agreement with accounting records or SEFA

The cash balance for the accounting units of the Child Nutrition Cluster Program was negative $683,982, at June 30, 2002. Although cash procedures to draw federal cash could be expected to result in a negative cash balance, it appears that this balance is in part due to the timing of General Fund reimbursement to the federal accounts for State Match.

In addition, there is an unreconciled difference of $12,834 between the Schedule of Expenditures of Federal Awards (SEFA) and the Financial Status Report (269). The Department of Education prepares its 269 report based on a grant accounting subsystem (G-100) by report category. It prepared the SEFA from the State's principal accounting system, MFASIS. Inconsistent accounting for the State Match between the two systems appears to be the cause for the unreconciled amount.

Also, for one quarter that was examined, the Department did not retain supporting documentation for $111,090 that was reported as unliquidated obligations on the 269 report.

Per 7 CFR 3016.20, the financial management systems of other grantees and subgrantees must meet the following standards:

1. *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

2. *Accounting records.* Grantees and subgrantees must maintain records, which adequately identify the source and application of funds, provided for financially assisted activities.
3. *Source documentation.* Accounting records must be supported by source documentation as cancelled checks, contract and subgrant award documents, etc.

Recommendation:

We recommend that the Department of Education:
1. maintain documentation for all amounts used in the 269 Reports,
2. reconcile the amounts of the 269 Report with the accounting records,
3. provide supervisory review when preparing 269 Reports,
4. review the inconsistencies over the accounting for the State Match amount between the G-100 and MFASIS records to ensure that the correct amount is reported, and
5. investigate and correct, as necessary, any coding errors that may be the cause of the negative net cash of the Nutrition Cluster Report Organizations.

Auditee Response/Corrective Action Plan:

Program staff will implement the auditor's recommendations during fiscal year 2003.

The individual responsible for implementing and monitoring corrective action is Mary Moody, Education Specialist, Child Nutrition Services, 624-6843.

(02-34) Support Systems Team

CFDA#: Various **Questioned Cost:** None

Federal Award Number: Various

Finding: Inadequate internal controls over subrecipients' cash balances (Prior Year Finding)

The Department of Education's internal control procedure to monitor and ensure subrecipient compliance with cash management requirements does not operate effectively. The Department did not withhold payments to 13 of the 25 subrecipients that were tested, although they had been identified as having excess federal cash on hand. The procedure to monitor subrecipient cash reports each quarter and then withhold additional funding to subrecipients with excess cash was not applied to "manual payments" (3 of 13) or to "lump sum" payments (10 of 13).

According to 31 CFR 205.20 and 34 CFR 80.20, cash advances to subrecipients must be timed according to their immediate cash needs.

We note that the internal control deficiency identified did not involve major federal programs.

Department of Education

Recommendation:

We recommend that the Department ensure that cash controls are applied to all payment processes.

Auditee Response/Corrective Action Plan:

Currently, Finance is providing a list to all program managers advising them which school units are on cash management. Finance now makes the decision for all Federal programs as to whether payments should be withheld and program managers are notified after the fact. If program managers want to reverse that decision, the school unit must provide the Department with an interim EF-U-415 cash report showing all excess cash has been disbursed before funds will be released.

This corrective action was implemented during fiscal year 2003.

The individual responsible for implementing and monitoring corrective action is Lesley Clark, Chief Accountant, School Support Services, 624-6866.

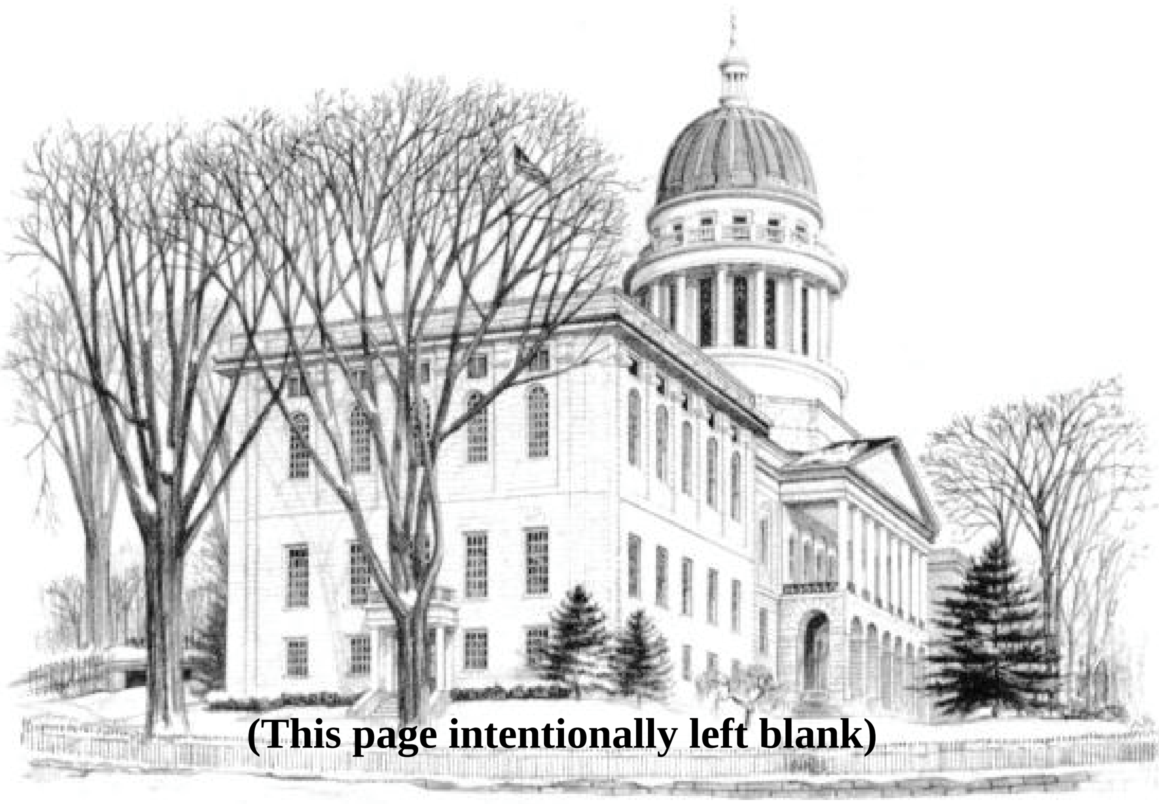
State of Maine
Department of Environmental Protection

Summary of Federal Findings

We found deficiencies in the Performance Partnership Grants program, primarily in the Department's performance of its responsibilities toward subrecipients. We found that the Department did not monitor as required, and did not include required language in its contracts with subrecipients. At June 30, 2003, the Department had not received required reports from five subgrantees with 1998 projects. In one of the five cases, the Department did not receive semi-annual progress reports, a final report or a match certification form for a project that received $15,300. This expenditure of federal funds was not supported by adequate documentation.

Also, the Department provided federal funds to subrecipients on a predetermined schedule, without consideration of their immediate cash needs.

Performance Partnership Grants program: We question $15,300



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Department of Environmental Protection

(02-35) ACE Service Center
Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

Federal Award Number: BG-99182900
BG-99182997

Finding: Inadequate internal controls and compliance over cash management (Prior Year Finding)

Payments of approximately $1,000,000 per year are made to Nonpoint Source Program subrecipients based on a predetermined time schedule without consideration of the subrecipients' immediate cash needs. These payments represent about fifteen percent of the Department's expenditures for this Performance Partnership Grant.

Title 31 CFR 205.7(b) states:

> A State and a Federal agency shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the pay out.

Section 205.20(a) states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out a program or project.

Title 40 CFR 31.37(a)(4) states:

> States shall conform any advances of grant funds to subgrantees substantially to the same standards of timing and amount that apply to cash advances by Federal agencies.

Cash management requirements are also specified in the grant award, and are similar to that of the CFR requirements referenced above.

Recommendation:

We recommend that the Department of Environmental Protection establish procedures to comply with all cash management requirements.

Auditee Response/Corrective Action Plan:

The Department has changed its procedures and implemented more frequent cash draw downs to minimize the elapsed time between the receipt of Federal funds and their pay out. The contact person is George Viles. Corrective action was taken in the current cycle of Nonpoint Source Program contracts in April 2003.

(02-36) Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** $15,300

Federal Award Number: BG-99182900
BG-99182997

Finding: Inadequate controls over subrecipient monitoring responsibilities (Prior Year Finding)

The Bureau of Land and Water Quality does not perform monitoring activities as required by the Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, for the Nonpoint Source Program included in the Clean Water Act. Also, to fully identify monitoring responsibilities, the Bureau must determine whether the Davis-Bacon Act applies to construction projects funded by payments to subrecipients. The Nonpoint Source Program awards approximately one million dollars per year to municipal governments, soil and water districts, and 501(c)(3) organizations.

Circular A-133, Section 400(d)(3), requires that grantees "monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes." The Bureau monitors subrecipients by requiring a final report and local match certification form when projects are complete. As of the end of fiscal year 2002, these reports had not yet been received for five subgrants designated as 1998 projects. In one of the five cases, the Bureau did not receive semi-annual progress reports, a final report, or a match certification form for a project that received $15,300. This expenditure of federal funds was not supported by adequate documentation.

Section 400(d)(4) requires grantees to "ensure that subrecipients expending $300,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Section 400(d)(5) requires that the grantee "issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action." The Department does not have a system in place to identify or ensure compliance of qualifying subrecipients.

Recommendation:

We recommend that the Department establish procedures to ensure that required subrecipient monitoring and audit reports are received, and that management decisions on audit reports are issued as necessary.

Auditee Response/Corrective Action Plan:

The monitoring procedures for the Nonpoint Source Program will be carried out fully. Contract requirements have been revised to address the audit findings. The name of the contact person is George Viles. Corrective action was taken as of April 2003.

(02-37) Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

Federal Award Number: BG-99182900
BG-99182997

Finding: No controls over suspension and debarment requirements (Prior Year Finding)

The Department of Environmental Protection has no established procedures to ensure compliance with suspension and debarment requirements for the Nonpoint Source Program, and did not obtain the required certifications from any subrecipient. These awards amount to approximately one million dollars per year and represent fifteen percent of the Department's expenditures for this performance partnership grant.

The Compliance Supplement of the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, prohibits non-federal entities from contracting with parties that are suspended or debarred, or making subawards under covered transactions to them. All subrecipients must certify that the organization and its principals are not suspended or debarred.

Recommendation:

We recommend that the Bureau of Land and Water Quality of the Department of Environmental Protection implement procedures to ensure that the required certifications are obtained prior to disbursement of federal funds.

Department of Environmental Protection

Auditee Response/Corrective Action Plan:

The Department has revised contract forms for the Nonpoint Source Program to incorporate suspension and debarment requirements. The contact person is George Viles. Corrective action was taken as of April 2003.

(02-38) Bureau of Land and Water Quality

Performance Partnership Grants
CFDA#: 66.605 **Questioned Cost:** None

Federal Award Number: BG-99182900
BG-19182997

Finding: No controls over inclusion of federal procurement requirements in subrecipient contracts (Prior Year Finding)

The Department does not have procedures to ensure that all subrecipient contracts contain all federal procurement requirements for the Nonpoint Source Program. These awards amount to approximately $1,000,000 per year and represent fifteen percent of the Department's expenditures for this performance partnership grant.

The original conditions of the federal award contain the provision that the State require subrecipients to take affirmative steps to comply with the provisions of the Small Business in Rural Area program. Amendment Two contains the provision that the State require subrecipients to take affirmative steps to comply with the Minority Business Enterprise/Women's Business Enterprise program. These requirements were not included in contracts with subrecipients.

Recommendation:

We recommend that the Bureau of Land and Water Quality implement procedures to ensure that federal procurement requirements be communicated to subrecipients.

Auditee Response/Corrective Action Plan:

The Department has now incorporated Federal procurement requirements in the current cycle of Nonpoint Source Program contracts. The contact person is George Viles. Corrective action was taken as of April 2003

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State of Maine
Department of Human Services

Summary of Federal Findings

The Department of Human Services administers the largest and most complicated of the State of Maine's federal programs. We found very serious deficiencies in five of those programs: the Temporary Assistance for Needy Families (TANF) program, the Medical Assistance (Medicaid) program, the Child Support Enforcement program, and two Title IV-E programs, Foster Care and Adoption Assistance. We also found deficiencies in the Immunization Grants program, the Child Care and Development Block Grant program, the Social Services Block Grant program and the Administrative and Matching Grants for the Food Stamp Program. There were deficiencies in controls over accounting and reporting that apply generally to federal grants that the Department administers. Also, we found one instance of improper transactions being intentionally made.

In general, deficiencies were found in the accounting for and management of cash, especially the Department's inability to relate its cash draws for a federal program to the immediate cash needs of that program or the specific expenditures of that program. Inappropriate use of funds, transfers to and from funds, late and incorrect federal reports of expenditures, and unallowed costs charged to federal programs are the other types of deficiencies that we found.

TANF *We question $20,732,474.*

The Department drew $18.97 million more in federal cash from the TANF program, primarily during fiscal years 2000, 2001 and 2002, than it reported as having been spent on behalf of the program. It appeared that most of the funds were spent on costs of the Bureau of Family Independence. However, those costs are distributed to multiple federal programs through a cost allocation plan, and the Department is unable to identify which programs benefited from the funds. The Department's convoluted accounting system, lack of fiscal staff, and use of federal program cash for other than immediate needs of a specific federal program contributed to the problem.

We also found that the Department's inconsistent methods of retrieving and classifying financial data led to inaccurate reporting of expenditures to the federal government. Inaccurately prepared worksheets resulted in overstated expenditures.

Medicaid *We question $346,729.*

Problems regarding cash were also found in the Medicaid program. We found that there was a negative cash balance in two Medicaid accounts every month during fiscal year 2002, and that the average ending cash balance was negative $26.8 million. Again, the convoluted accounting system and complexity of the program contributed to the problem.

We also found that the Department used federal funds for State purposes by temporarily transferring $3,440,000 in previously recorded General Fund expenditures to the Federal

Expenditures Fund, creating General Fund allotment and allowing payments to made. The transfer also temporarily overcharged federal funds and triggered a draw of federal cash. The Department will be well served by working with the Budget Office and the Legislature to find a way to ensure adequate resources for its programs.

We found that that the Department routinely submits late quarterly reports to the federal government and with no formal review. Once again, the accounting system, as the Department has implemented it, is complicated; reporting has become more complicated with each Medicaid waiver that is granted to the State of Maine. An unexpected result of complicated and tardy reports is that the State cannot receive the additional federal reimbursement that it seeks for reimbursement of unbudgeted expenditures until an accurate report is submitted. As of the second week in May 2003, the Department had just submitted its December 2002 report (due January 2003) requesting reimbursement of approximately $20 million. We note that at March 31, 2003 (subsequent to the period under audit), the cash balance in the Medicaid account was negative $105 million. Most of the cash shortage was eliminated on the first day of the next quarter (April 1, 2003), when federal funds were drawn from the next quarter's grant award. This not only has an effect on the program, but also has a negative effect on the State’s overall cash position.

Other Medicaid findings include the following:

1. The Department did not provide required information regarding program error rates, and did not submit a sampling plan, to the federal government.
2. Payments of $330,860 were made to an individual after eligibility was suspended.
3. Some case management claims, totaling $15,869, were paid twice. Recipients received duplicative services from other providers, in addition to the services provided by the State.
4. An incorrect date entered into the claims processing computer system resulted in a claim of $3,335 being paid in error.

Child Support Enforcement *We question $1,263,892.*

We found four deficiencies in the Child Support Enforcement program:

1. Training costs were charged to the program, while none of those costs were allowable expenditures of the program. Other training costs were reported twice. The unallowable portion of these costs (the “federal share,” or 66%) totals $735,765.
2. The Department charged $137,423 in unsupported or incorrect payroll costs to the program. The federal share of these costs is $90,700.
3. The Department transferred $1,249,400 to the Department of the Attorney General for Child Support Enforcement expenditures, while the federal portion of actual expenditures totaled only $811,973, a difference of $437,427.
4. The cash balance for the Child Support collections and distributions accounts totaled $15.4 million at June 30, 2002, which was $13.7 million higher than what was reported to the federal granting agency.

State of Maine
Department of Human Services

Title IV-E: Foster Care *We question $8,583,847.*

We found that there were problems with eligibility in both Title IV-E programs, Foster Care and Adoption Assistance, to the extent that we consider eligibility to be material noncompliance. In the Foster Care program, the Department made payments on behalf of ineligible children of $106,252 out of the $561,403 in federal payments that we tested. Payments of $68,401 were made on behalf of children who were in unlicensed placements. Some eligibility data was not reviewed, and some programmed edits in the Department's automated system appeared to be responsible for incorrect licensure status. Some ineligible participants were included in transportation and daycare reimbursement reports. Those reports also included duplicative charges of $48,047.

Controls over accounting for shared costs of the two Title IV-E programs are not sufficient to prevent errors in tracking and recording transactions regarding cash management, grant award funding, federal reporting and program costs. The Department's procedures for accounting for administrative and other qualifying expenditures are highly complex and prone to error. Costs of $24,773 for international adoption were claimed twice.

Payments of $49,534 were made by the Foster Care program rather than by the Adoption Assistance program on behalf of 13 children who had been adopted or had verified adoption decrees.

Cash management was also a problem: the Department drew approximately $8.3 million more, over several grant periods, than it reported as expenditures of the Foster Care program. For federal fiscal year 2002, an overdrawn amount of $1.9 million was used to pay for the Adoption Assistance program's portion of Title IV-E shared costs.

Finally, the Department did not require suspension and debarment certifications from contractors receiving awards of more than $100,000 from the Foster Care program.

Title IV-E: Adoption Assistance *We question $272,257.*

We found serious deficiencies in the systems that ensure eligibility. Payments of $97,125 were made to ineligible recipients in 18 of the 60 cases that we reviewed. In 62 other cases that had been closed by program personnel due to ineligibility, payments of $71,266 continued to be generated from program accounts by the Department's automated system. An additional $2,131 was charged on behalf of two other ineligible children, and we could not find sufficient documentation to support the eligibility of certain other children. We found that $90,344 was charged to the federally funded Adoption Assistance program when it should have been charged to the 100 percent State-subsidized Adoption Assistance program.

As stated above, controls over Adoption Assistance and Foster Care shared costs are poor. As with the Foster Care program, we found that costs for international adoption were claimed twice. The duplication resulted in questioned costs of $11,391.

Data regarding eligibility in the Department's automated system is not entirely accurate. Client count information was also found to be significantly inaccurate. A change in the federal participation rate was not entered into the system. The correct rates were applied, because the reports requesting federal funds are prepared without using the system's coding. Because some edits within the system appeared inadequate, program personnel maintained a separate database of eligible recipients as a control. That database, too, was inaccurate.

Immunization Grants

We found that the Department did not draw federal funds that were available to the program, but used other federal or non-federal resources to fund the program's activities. For 11 of the 12 months of the fiscal year, the federal Immunization Program account had a negative balance that ranged from negative $109,442 to negative $471,450. Not utilizing federal funds can jeopardize the State's overall cash position.

We also found that one employee prepared reports of the time spent on federal programs in advance, and in accordance with budgeted estimates rather than actual activity.

Child Care and Development Block Grant *We question $88,225.*

The Department charged the program for payroll costs of three employees who performed duties for several federal or State programs. We also found that the Department submitted financial reports to the federal granting agency that underreported expenditures and transfers by $1,788,017. Finally, the Department failed to comply with requirements to monitor subrecipients of the Child Care and Development Block Grant.

Administrative and Matching Grants for the Food Stamp Program
We question $203,509.

The Department charged 100% of payroll costs for six employees who did not work solely for the benefit of the Food Stamp Program. In addition, the Department overstated the amount of expenditures to the federal government by $546,812 and overstated the amount reported to the State Controller for inclusion in the State's Schedule of Expenditures of Federal Awards by $1,800,000. Upon notification, the Department corrected both of the reporting errors.

Social Services Block Grant *We question $691,657.*

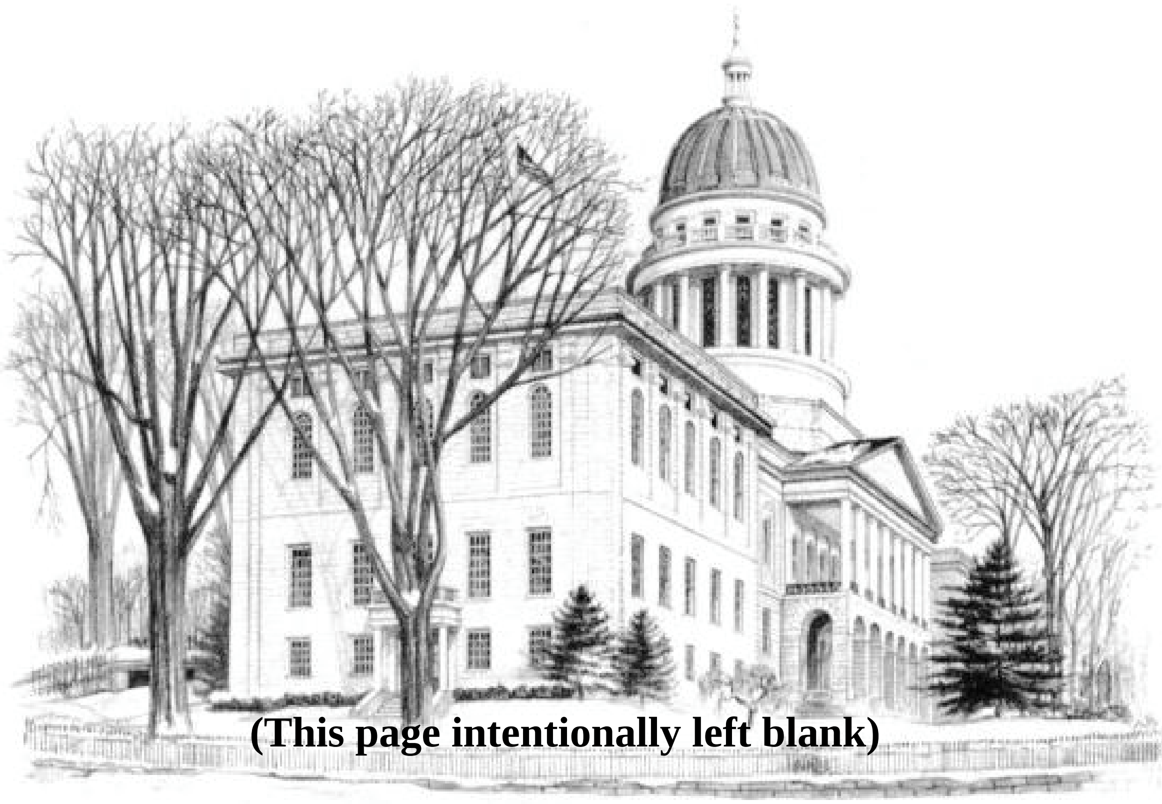
The Department included certain expenditures as both direct program costs and as costs that were allocated through cost allocation schedules, overstating program expenditures by $691,657. The Department also reported other incorrect amounts, which have been corrected, on federal Financial Status Reports. A spreadsheet has been developed that will aid in reporting accurate data.

Improper Transactions

One employee caused checks totaling $434,062 to be made to the order of legitimate providers who had not billed the Department for services and who were not owed payment. The amount of the checks was based on balances remaining on encumbered contracts, which were about to lapse. The checks were not mailed to the providers but were returned to the employee, who held them and re-deposited them in the next fiscal year. The stated intention was to prevent the funds from lapsing.

Other

Certain accounting and reporting weaknesses were found for various programs that the Department administers. Controls over financial reporting were insufficient to prevent the Department from reporting duplicate costs, from using incorrect rates when allocating costs, and from reporting estimated, rather than actual, costs to the federal government. In addition, the Department did not manage federal cash in compliance with the Cash Management Improvement Act Agreement. For the some programs, it was difficult to trace federal cash to program expenditures. For other programs, the cash was not drawn in such a way to minimize the time elapsing between the receipt of federal funds and the expenditure of those funds, as required. The Department did not always use the method of drawing federal funds that was specified in the Agreement, and some funds were drawn haphazardly. The cash balance in the Social Security Disability program was negative for each of four months, indicating that the Department had used funds from other sources to provide for the cash needs of the program. An amount of $2,520,000 was drawn for reimbursement of expenditures of the Child Care Development Block Grant that were made in a previous fiscal year. Again, the Department used resources from other federal programs, or from the General Fund or Other Special Revenue Fund, to have made the previous-year's expenditures.



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Department of Human Services

(02-39) Division of Financial Services

Temporary Assistance for Needy Families
CFDA#: 93.558 **Questioned Costs:** $18,968,786

Federal Award Number: G-0001METANF
G-0101METANF
G-0201METANF

Finding: TANF grant overdrawn

The Department of Human Services drew $18,968,786 more in federal cash than the Department reported as having been expended for the Temporary Assistance for Needy Families (TANF) program during fiscal years ended June 30, 2000, June 30, 2001 and June 30, 2002. The Department was unable to demonstrate which federal or non-federal programs benefited from the funds. The Department's convoluted accounting system, lack of fiscal staff, and lack of reconciliation between cash needs and cash draws contributed to the problem.

It appears that most of the funds were used to pay for a disproportionate share of costs of the Bureau of Family Independence, which are distributed to multiple federal programs through a federally-approved cost allocation plan. However, the Department was unable to document which programs received the benefit of the funds.

The Department did report actual TANF expenditures, including the appropriate share of indirect costs allocated to TANF, but drew funds in excess of those costs.

Recommendation:

We recommend that the Department of Human Services revise procedures for drawing federal funds. Funds should only be drawn based on the actual cash needs of the program that is providing the funds.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

DHS did draw 18,968,786 in excess TANF Block Grant funds over a period of time for the Bureau of Family Independence Administrative Expenditures. This Program relies heavily on allocating costs to its major programs, including: TANF, Child Support Collections, Food Stamps and MaineCare (Medicaid). In preparing a reconciliation of this account, the Department was able to identify other programs, including Child Support Collections and Medicaid Administration that support BFI with more revenues. These Programs' grants had not

transferred enough funds to support their share of administrative expenditures, thus resulting in the TANF Block Grant being over drawn.

Currently the Department of Human Services is undergoing a review of its accounting processes and procedures, and specifically a reconciliation of the TANF cash over draw by an accounting firm. The firm will also build a model for DHS to follow in reconciling drawdowns to expenditures in the future.

(02-40) Bureau of Child and Family Services

Title IV-E: Foster Care
CFDA#: 93.658 **Questioned Costs:** $106,252

Federal Award Number: 0201ME1401

Finding: Payments made to ineligible recipients (Prior Year Finding)

The Department of Human Services has inadequate controls in place to ensure that payments are made only to eligible recipients of the Title IV-E Foster Care Program. In fiscal year 2002, the program expended approximately $22 million in federal funds and $12 million in State funds for Foster Care maintenance assistance payments, consisting primarily of board and care payments. Title 45 CFR 1356 and the Social Security Act state that Foster Care benefits may be made on behalf of a child only if all program eligibility requirements are met. Further, compliance with general cost principles of Office of Management and Budget Circular A-87 requires that governmental units administer federal funds in a manner consistent with program objectives, and the terms and conditions of the award.

We reviewed 56 cases. Of those, 22 (39 percent) were determined to be ineligible for either part or all of the review period. Erroneous payments of $106,252 were paid for these 22 cases out of the total of $561,403 in federal payments that were tested, a dollar error rate of 18.9 percent. Likely questioned costs for the Foster Care program were determined by projecting the dollar error rate of the sample to the $22,474,589 in federal funds expended for subsidy payments during the year, resulting in likely questioned costs of $4,253,587.

Recommendation:

We recommend that the Department immediately institute eligibility review procedures. These should include periodic examination of supporting documentation maintained by the Department in conjunction with the review of eligibility data contained in MACWIS to provide assurance that Title IV-E requirements have been met. We recommend that the Department review its procedures governing changes made to MACWIS to ensure the appropriateness of program subsidy payments and to ensure consistent coding and use of current and correct rates.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

Recommendation 1: The Quality Assurance of the Title IV-E eligibility is being assigned to a DROMBO Financial Resources Specialist. An annual statewide review of approximately 500 cases will be conducted to ensure that the client status codes in the Title IV-E eligibility frames and the financial screens of MACWIS are displaying the proper eligibility status, and funding account codes.

Recommendation 2: The December 2002 refinement of the funding matrix used by MACWIS for the Child Welfare Payroll (Placement costs) was a result of one such review.

(02-41)Bureau of Child and Family Services

Title IV-E Adoption Assistance
CFDA#: 93.659 **Questioned Costs**: $260,866

Federal Award Number: 0201ME1407

Finding: Payments to ineligible recipients (Prior Year Finding)

The Department of Human Services has inadequate controls in place to ensure that payments from the Title IV-E Adoption Assistance program are made only to eligible recipients. In fiscal year 2002, the program expended approximately $7 million in federal funds and $3.6 million in State funds for Adoption Assistance subsidy payments, consisting primarily of board and care payments. Title 45 CFR 1356, the Social Security Act, and the Compliance Supplement of Office of Management and Budget Circular A-133 state that Adoption Assistance benefits may be made on behalf of a child only if all program eligibility requirements are met. Further, Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires that governmental units administer federal funds in a manner that is consistent with program objectives and the terms and conditions of the award.

Sixty sample cases were reviewed. Of those, eighteen (30 percent) were determined to be ineligible for either part or all of the period under audit. We question $97,125, the amount of payments made for these 18 cases. This represents a dollar error rate of 28.5 percent of the $341,071 in federal payments that were tested. Likely questioned costs for the Adoption Assistance program were determined by projecting the dollar error rate of the sample to the $7,004,824 in federal funds expended for subsidy payments during the year, resulting in likely questioned costs of $1,994,727.

Analysis done to identify the program population indicated that noncompliance resulted from inadequate controls over program subsidy payments generated by the Maine Automated Child Welfare Information System (MACWIS).

System-generated payments for ineligible children, other than the individuals sampled above, were charged to program accounts. In 62 cases that had been closed by program personnel due to ineligibility, payments of $71,266 continued to be generated from program accounts during the year. In 69 cases, $90,344 that should have been charged to the 100 percent State-subsidized Adoption Assistance program were charged to the federal Title IV-E funded Adoption Assistance program instead. Payments of $1,242 and $889 were made on behalf of two other children who also were ineligible but continued to receive program-funded payments. In total, this analysis resulted in an additional $163,741 in questioned costs for payments charged to the program on behalf of ineligible recipients.

Recommendation:

We recommend that the Department immediately institute eligibility review procedures that include examination of supporting documentation maintained by the Department in conjunction with the review of eligibility data contained in MACWIS to provide assurance that Title IV-E requirements have been met. We recommend that the Department review its procedures governing changes made in MACWIS, to ensure the appropriateness of program subsidy payments generated by the system and to ensure consistent coding and use of current and correct rates.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement costs) have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 should help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Reducing the number of available rates currently paid through the Levels of Care System will help systemize payment rates. Approximately forty (40) rates are being reduced to two (2) rates for Adoption Assistance cases on July 1, 2003. Current cases will be grand fathered until January 1, 2004, at which time they also will go to the new system. Queries of the rates maintained in MACWIS will be run at least twice per year to review accuracy of the rates paid.

Department of Human Services

(02-42) Bureau of Family Independence

Administrative and Matching Grants for the Food Stamp Program
<u>CFDA#</u>: 10.561 **<u>Questioned Costs</u>:** $203,509

Federal Award Number: 2002IS251444

<u>Finding</u>: Excess payroll costs charged to the Food Stamp program; no controls in place to ensure payroll costs are properly charged to the federal program (Prior Year Finding)

The Department of Human Services charged 100% of payroll costs to the Food Stamp Program for six employees who did not work solely for the benefit of the program. We therefore question $203,509 of payroll costs associated with these six employees. Payroll costs for these employees should have been charged to accounts included in the Department's cost allocation plan.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires that employees who work solely for one program submit certifications to that effect at least twice annually.

The Department of Human Services does not have a review process in place to ensure:
1. that payroll costs for employees who work solely for the benefit of one program are charged to that program, or
2. that employees who work for multiple federal programs are charged to accounts that are included in the Department's cost allocation plan.

<u>Recommendation</u>:

We recommend that the Department of Human Services implement procedures to ensure that payroll for each individual position is properly charged to federal programs, and correctly coded in the accounting system.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: John D. Mower

The Department of Human Services' position is that the certification requirement was being met by the employees' electronic signature on the Department's electronic time and attendance (TOMS) System, including identifying work time spent by program(s). The Department expects to utilize the MS-TAMS (Statewide Time and Attendance) System early in fiscal year 2004. There are project and activity fields in MS-TAMS that the Department will be populating with information for employees to select. The Divisions of Financial, Human and Technology Services are working to have these agency-specific fields populated with the proper selections

Department of Human Services

(02-43) Division of Financial Services

Administrative and Matching Grants for the Food Stamp Program
CFDA#: 10.561 **Questioned Costs:** None

Federal Award Number: 2002IS251444

Finding: Inadequate controls over financial reporting

The Department of Human Services does not have adequate controls in place to prevent or detect errors in reporting federal Food Stamp program expenditures on the Schedule of Expenditures of Federal awards. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations*, requires entities that expend federal awards to be able to provide reasonable assurance that financial statements are reliable.

Total expenditures originally reported to the Bureau of Accounts and Control for inclusion in the State's Schedule of Expenditures of Federal Awards (SEFA) were overstated by approximately \$1.8 million. The \$1.8 million primarily comprised the following errors:

- Expenditures of \$1.6 million incurred by the Bureau of Health were included twice due to a misunderstanding between the accountant responsible for preparing the SEFA and the program accountant.

- Expenditures of \$546,812 were included as both direct and allocated costs. The program accountant was apparently not aware that the costs were included in the cost allocation schedules.

- Expenditures of \$547,925 for nutrition education were omitted because the program accountant used the figures from a quarterly expenditure prior to its being amended.

All errors were disclosed to program personnel and the SEFA was subsequently corrected to more accurately reflect actual program expenditures.

In addition to the overstatement of the SEFA, we also found that the Financial Status Report (SF 269) was overstated by the \$546,812 noted above. The error was subsequently corrected and an amended report filed with the federal oversight agency.

Recommendation:

We recommend that the Department of Human Services implement control procedures to ensure that future federal financial reports are stated accurately.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Department of Human Services does not have the staffing to implement the internal controls to oversee every work task of the Division. The Division Director will meet with its senior staff early in fiscal year 2004 to go over this finding in detail and make sure they have an understanding of the sources of information for compiling the SEFA.

The State has contracted with an accounting firm to review the Department's accounting practices and make recommendations. One of the areas they will focus on is adequate staffing and internal controls requirements.

(02-44) Bureau of Health

Immunization Program
CFDA#: 93.268 **Questioned Costs:** None

Federal Award Number: H23/CCH104482-12-2

Finding: Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)

One employee working on multiple activities, and supporting the allocation of his time with monthly "Report of Effort" forms, prepares these forms in advance based on budget estimates. The forms are signed by the employee and his supervisor. Employees working solely on the Immunization Program do not prepare the semi-annual certifications that are required for employees who work only on one program. Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states:

> Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system…or other substitute system has been approved by the cognizant agency. They must reflect an after the fact distribution of the actual activity of each employee.
>
> Where employees are expected to work solely on a single Federal award or objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Recommendation:

We recommend that the Bureau of Health of the Department of Human Services ensure compliance with the requirements for employees who work on multiple activities and employees who work solely on one activity or cost objective.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Department of Human Services' position, as a whole, is that the certification requirement is being met by the Department (and State as a whole) through the conversion from manual paper payroll time sheets to an electronic Time & Attendance Management System (TOMS/TAMS) in early 2002. Thereby, employees can go on-line and enter their "time sheet," and also their respective Programs, and then forward it, with an electronic signature, to their supervisor for approval.

(02-45) Division of Financial Services

Immunization Program
CFDA#: 93.268 **Questioned Cost:** None

Federal Award Number: H23/CCH104482-12-2

Finding: Inadequate cash management procedures

The Department of Human Services did not draw available federal funds for disbursements of the Immunization Program, but used other sources to fund program activities. For eleven of the twelve months of fiscal year 2002, the federal Immunization Program account had a negative daily cash balance. The negative cash balance ranged from -$109,442 to -$471,450, and the number of days of cash on hand ranged from –14 days to –81 days. Disbursements can be made from this account even with a negative cash balance because the Department combines this federal account with non-federal accounts, and the accounts taken as a whole have available cash. Although not out of compliance with federal requirements, carrying a negative balance for most of the fiscal year does not reflect proper cash management practices. The Department is allowed to draw cash in advance to meet the needs of the program. Not drawing cash as allowed may jeopardize the State's cash position.

Recommendation:

We recommend that the Department of Human Services draw federal cash for the Immunization Program rather than relying on non-federal cash resources. We further recommend that the Department segregate the Immunization Program account from non-federal accounts, in order that the federal cash balance can be easily identified.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The cash management accountant, as of March 31, 2003, is weekly drawing down federal cash for the Immunization program payrolls, and will continue to do so in the future.

(02-46) Division of Financial Services

Temporary Assistance for Needy Families
CFDA#: 93.558 **Questioned Cost:** $1,763,688

Federal Award Number: G-0101METANF
G-0201METANF

Finding: Inaccurate financial reporting (Prior Year Finding)

The Department of Human Services submits quarterly federal financial reports (ACF-196) for the TANF Block Grant. Our review of these quarterly ACF-196 reports revealed the following:

1. The cumulative reporting method used by the program accountant to compile the ACF-196 expenditures led to inconsistencies in the reported expenditure accounts each quarter. Since the ACF-196 reports are cumulative, and the accountants method of querying the State's accounting system (MFASIS) is in a summarized manner each quarter, this summarized method has led to instances where (a) MFASIS accounts are switched in different quarters from being a federal expenditure to a state expenditure and back to being a federal expenditure, (b) MFASIS expenditure accounts being reported in different expense categories (Administrative, Systems, etc.) within the different quarters, and (c) expenditures initially reported in one quarter are ultimately not included in the subsequent quarter amounts as a result of the accountant not including an account in a subsequent cumulative query.

2. Duplicate expenditures were reported within the various TANF expense categories of the ACF-196 Report. These duplicate expenditures totaled $289,770. The accountant indicated that a revised ACF-196 report would be submitted to correct the double

counted expenditures. This revised report had not been submitted by the end of our fieldwork date.

3. DHS draws funds in accordance with the regulations of the TANF Block Grant that are ultimately used by the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF) programs. The amounts reported in the TANF ACF-196 report for the transfers is the actual expenditures incurred by SSBG and CCDF and not the amount drawn by the TANF program.

   Because TANF funds are transferred to and expended by the SSBG and CCDF programs, the amounts reported by TANF should be the actual amounts transferred to these other programs. The SSBG and CCDF programs currently report the actual expenditures in accordance with their program regulations.

4. Child Care and Other Supportive Service expenditures were reported on the ACF-196 reports as being entirely "assistance" type payments. "Assistance" payments per 45 CFR 260.31(a)(3) include supportive services such as transportation and childcare provided to families who are **not** employed. Eligibility testing revealed that some childcare and other supportive service expenditures paid on behalf of TANF clients who were employed were recorded as "assistance" type payments.

5. Worksheets inaccurately prepared by the auditee and used for reporting TANF GAP and Pass-Through expenditures were overstated by $1,763,688. These overstated expenditures will be questioned.

Recommendation: We recommend the following:

1. Cumulatively reported expenditures should be current quarter expenditures built upon the amounts reported on the previous quarter's ACF-196 report. Reproducing the queries each quarter for financial reporting in a summarized manner leads to reporting inconsistencies and inaccuracies.
2. Reconcile reported expenditures within the various expense categories of the ACF-196 report each quarter to the State's accounting system and supporting schedules.
3. Report actual TANF transfers to the SSBG and CCDF programs based on draw down and journal activities.
4. Report TANF expenditures in their appropriate expenditure categories (i.e. "assistance" and "non-assistance").
5. Reconcile the supporting worksheets utilized in reporting TANF expenditures to the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs that a worksheet for the Temporary Assistance for Needy Families Program "Gap and Pass-Through" components needed adjusting due to an

error in the amount of $1,763,688. DHS has revised the 2001 and 2002 federal ACF-196 TANF reports, as of 5-29-03, to reflect the adjustment.

The Department of Human Services concurs that expenditures for the ACF – 196 report should be accumulated quarterly and built upon the amounts previously reported. The Department will revise the MFASIS GQL Warehouse queries to reflect quarterly expenditures instead of cumulative expenditures. The Department of Human Services also concurs and does prepare quarterly reconciliations to the supporting schedules and the State Accounting System.

The Department of Human Services concurs with item #3. The Department of Human Services does erroneously report expenditures instead of revenue transfers. on the ACF-196 TANF Report. Also the Department of Human Services realizes it is difficult to reconcile TANF revenues to expenditures by federal fiscal year because the FIFO methodology was used in drawing down block grant funds. The Accountant Manager for the TANF Program has re-established cash balances for each years' grant, coordinating with those responsible for cash draw downs. Now that this change in reporting transfers instead of expenses is necessary, the ACF-196 reports will have to be revised during the first quarter of SFY 2004. We will contact the ACF about this issue. The Department will also begin drawing TANF funds into a TANF account, then transfer the funds to SSBG or CCDF, for a cleaner audit trail.

The Department of Human Services understands the Audit Department's opinion that TANF expenditures for "assistance" and "non assistance" should be segregated based on whether clients are employed or non-employed. However, the Department has e-mailed its federal partners for their interpretation as to how they expect childcare expenses to be reported on their ACF-196 report. Specific questions have been asked concerning "assistance" and "non assistance" and on which lines childcare is to be reported for both employed and non-employed families. DHS has included the Audit Department in its e-mail to the federal government.

(02-47) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
<u>CFDA#</u>: 93.563 **<u>Questioned Costs</u>:** None

Federal Award Number: Various

<u>Finding</u>: Inadequate controls over accounting for child support (Prior Year Finding)

The Department of Human Services has not reconciled cash balances in the Child Support collections and distributions accounts. The cash balances in the accounting system for these accounts totaled $15.4 million at June 30, 2002. That balance, which should represent

collections not yet distributed, was $13.7 million higher than the $1.7 million in undistributed collections reported to the federal agency.
This variance may be explained, in part, as follows.

1. Department personnel had not prepared journal entries to distribute the federal share of collections for the last three months of the fiscal year. In August 2002, the program accountant prepared a $6 million entry to make the distribution.
2. The State share of collections was under-recorded by $2.5 million, and Department personnel were unaware of this.
3. Program income of $2 million was inappropriately included in these accounts. The program accountant transferred $.5 million to a program account, but $1.5 million remained.
4. The Department also did not record a prior year federal audit adjustment of $3.4 million. The program accountant does not believe that the adjustment should be made in the State accounting system but could provide no other explanations for the variance in these balances.
5. In addition, some entries for current and prior-year State share were made incorrectly, sometimes requiring several adjustments. Other entries were prepared inconsistently to different accounts.

The Department also has not reconciled cash balances in the Child Support Enforcement program accounts. The accounting system net cash balances in these accounts totaled negative $4.8 million at June 30, 2002. That balance should approximate zero, since funds should be transferred to the accounts in the amounts of actual program expenditures. The negative balance is due, in part, to excessive transfers of program revenue to a pass-through agency in the current and prior year. There is also program income of $1.5 million that should be transferred to the Child Support Enforcement program accounts.

The Department inappropriately transferred $5.7 million from the federal share account to an account for State spending on another program. The federal share account cash balance at June 30, 2002 was $17.5 million even after the $5.7 million transfer, and even though the federal share entry of $6 million was not recorded until the next fiscal year. The federal share account, net of federal incentive revenues, is reserved for Child Support Enforcement program administrative expenditures, and should be transferred to the Child Support Enforcement program accounts. Due to improper matching of revenue and expenditures, however, this has not been done.

In addition, the Department has not yet reconciled its internal computer system, NECSES, to the State accounting system, MFASIS, as recommended in State and federal audits of prior years. Reconciliation is critical because NECSES calculates the Child Support Enforcement program award amount, which is based on the federal share of Child Support collections. In addition, such reconciliations might explain the remaining variances.

<u>Recommendation</u>:

We recommend that the Department of Human Services:
1. develop controls to ensure accurate, program-specific cash balances,

2. reconcile the NECSES system to the MFASIS system, and determine the reasons for and correct the cash variances,
3. accurately and carefully record State and federal shares and all entries
4. record the $2.5 million State reimbursement,
5. transfer all program income to program accounts, and
6. maintain documentation to support all entries and to ensure that all necessary entries are recorded.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services does not concur with the Audit Department interpretation of the $5.7 million dollar transfer being inappropriate. PL 2001, Chapter 358, Section KK3, and PL 2001, Chapter 439, Sections X-11, X-7 and Y-1, authorize the transfer of expenditures from the GF TANF account (010 10A 0138) to the OSR Child Support account (014 10A 0138). Journal Voucher # 81CB848 accomplishes this.

The Department of Human Services has recorded the $2.5 million dollar state reimbursement through Journal Vouchers #81CBCS06 dated 12-02-02, and #81CBCS0206A, dated 01-10-03.

The Department of Human Services is working toward the goal of reconciling the NECSES and MACWIS IT systems to the MFASIS system. Currently, the Department is working out the details as to why Foster Care collections balances vary. The Foster Care collections posted to NECSES are not equal to the Foster Care Collections reported in MACWIS. DHS is also instituting the use of revenue sources that will not net out the child support collections figures for MaineCare (Medicaid). Other discrepancies that exist involve refunds for overpayments. NECSES records/posts all revenue, while MFASIS figures are a net after refunds are returned. The Department estimates that this reconciliation will be completed by June 2004.

(02-48) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Costs:** $90,700

Federal Award Number: Various

Finding: Inadequate controls and procedures to ensure that only program-related payroll costs are charged to the program (Prior Year Finding)

Payroll costs of two employees totaling $51,595 were charged to the Child Support Enforcement program while none of those costs were program-related. The total is unallowable, and we question the federal portion (66%), or $34,053.

Payroll costs of another employee totaling $27,680 were charged to the Child Support Enforcement program. This represents 72% of the employee's total costs of $38,507. Department personnel could not provide support for the portion charged to the program. For the two biweekly timesheets examined, 2% of the employee's time was spent on program-related activities. The allowable portion of payroll costs would be $770, which exceeds the amount charged to the program by $26,910. We question the federal portion (66%), or $17,761.

All payroll costs of four other employees, totaling $144,217, were charged to the Child Support Enforcement program although those employees sometimes worked for other programs. Department personnel could not provide support for the portion charged to this program. For the two biweekly timesheets examined for each employee, $85,299 of the payroll costs were for program-related activities. The remaining $58,918 is unallowable. We question the federal portion (66%), or $38,886.

The total of unsupported or incorrect payroll charges is $137,423; total questioned costs are $90,700.

In addition, Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires that timesheets of employees who work for more than one program be compared to accounting distributions and that adjustments to actual activity be recorded at least quarterly. No such adjustments were made, and no such analyses were available on request.

Although correcting entries were made for unallowable prior year payroll costs, the entries resulted in further reducing program cash instead of reimbursing the program.

Recommendation:

We recommend that Department of Human Services develop controls to ensure that only Child Support Enforcement program-related payroll costs are charged to the program. We recommend that reporting and accounting adjustments be made for the unallowable costs and that the Department exercise care in making these adjustments. We also recommend that timesheet analyses and quarterly adjustments to actual be performed for employees who work for more than one program.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services' position, as a whole, is that this certification requirement is being met by an electronic Time and Attendance Management System (TOMS/TAMS). Through

this IT system employees can go on-line and enter their time, and also their respective programs. They then forward it to their supervisor, with an electronic signature, for approval.

Adjustments will be made according to electronic time slips for the staff members who work for programs other than Child Support for SFY 2002. Future adjustments will be made on a quarterly basis.

Adjustments were posted to the dedicated account instead of the Federal Child Support account for SFY 2001. Journals have been processed to correct this error.

The adjustments were processed on the below listed journals:

10A 8133SERCU
10A 812DSERCU
10A 812DSERDV
10A 812DSERMH
10A 812DSERLR
10A 813DSERLR
10A 8133SERTD
10A 812DSERTD
10A 8133SERCC
10A 812DSERCC

(02-49) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Costs:** $735,765

Federal Award Number: Various

Finding: Inadequate controls and procedures to ensure accurate financial reporting

Bureau-wide training costs totaling $754,871 were charged to the Child Support Enforcement program while none of those costs were allowable expenditures of the program. We question the federal portion (66%) of the expenditures, or $498,215.

Other training costs totaling $212,081 were reported twice. One of the reported amounts was increased to $321,334 under the assumption that the 34% State share was paid by the vendor in a cost-sharing agreement. The amount reported was $533,415, the sum of both amounts. We examined 15 invoices, and found a total of $126,215 in program-related charges. Department personnel were unable to provide documentation to support charging any of the costs of seven of the invoices to the program. The vendor paid 27.25% of the costs, so the allowable total is

$173,491. The unallowable portion is $359,924, the difference between $533,415 and $173,491. We question $237,550, the 66% federal share. Total unallowable costs, therefore, are $1,114,795. Total questioned costs are $735,765.

Finally, in our expenditure test of 40 items, one invoice of $74,467 showed no evidence of having been approved for payment.

Recommendation:

We recommend that Department of Human Services personnel develop controls to ensure that only Child Support Enforcement program related training costs are charged to the program and that no costs are reported more than once. We recommend that adjustments be made in reporting and accounting. We also recommend that the Department maintain documentation to support training and all costs charged to the program, and that all expenditures be properly approved for payment.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs that BFI Bureau-wide training costs, (report org 4004) totaling $757,871, were charged to the Child Support Enforcement Program in error.

The Department of Human Services concurs with the finding concerning double counting of DHSTI child support expenditure figures. DHS does not concur with the auditor's assumption that the $212,081 was "grossed up". The true DHSTI expenditure, that was also included on Schedule 7, did include the vendor paid portion. The double posting occurred due to the Department's payment being included on the schedule 5,and also the Schedule 7. The figures on schedule 5 did not include the vendor's share.

DHS has corrected the SFY 2002 schedules and corresponding federal reports to reflect the proper charges. Revision to Child Support Enforcement Program reports will be reflected on the 3-31-03 report period.

The Department of Human Services has also corrected the above cost allocation schedule templates for SFY 2003. Revision to Child Support Enforcement Program reports will be reflected for the 3/31/03 reporting period.

Department of Human Services

(02-50) Division of Financial Services

Child Support Enforcement
CFDA#: 93.563 **Questioned Costs:** $437,427

Federal Award Number: Various

Finding: Excess federal program funds to pass-through agency; no adjustments made for prior year excess transfers (Prior Year Finding)

The Department of Human Services transferred Child Support Enforcement program funds in excess of program expenditures to the Department of the Attorney General (AG). The Department provided $1,249,400 in Child Support Enforcement program funds to the AG by reducing the Department's program revenue account, and by increasing AG program revenue accounts. The revenue transfers were based on requests by the AG for funds for federal Child Support Enforcement and other program expenditures.

Actual total program expenditures of the AG for Child Support Enforcement were $1,230,262, which was calculated by the Department based on information provided by the AG. The federal portion was 66% or $811,973, which is $437,427 lower than the $1,249,400 in federal program funds that were transferred. Although the Department reported only actual expenditures to the federal agency, additional program funds were transferred that were then used for other programs. We question $437,427, the additional amount transferred.

Also, the Department did not adjust federal accounts for $673,369 in excess program fund transfers noted in our prior year finding. This problem appeared to be caused or compounded by inadequate controls over accounting, failure to reconcile cash accounts, and an incomplete understanding of the process.

In addition, Department personnel could not explain $445,500 in additional transfers to the AG from the Special Revenue Fund, or explain a similar transfer in the prior year. Although we do not consider these transfers to be questioned costs, supporting documentation should be available.

Recommendation:

We recommend that the Department of Human Services transfer Child Support Enforcement program funds to the Department of Attorney General only to the extent of program expenditures. We recommend that the Department post adjustments for current and prior year excess transfers. We also recommend that the Department maintain documentation in support of all journal entries.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact Person: Carol Bean

The Department of Human Services concurs with the above audit finding. DHS will seek reimbursement from the Department of Attorney General for the following amounts:

SFY 2001 $673,369
SFY 2002 $437,427

DHS currently transfers funds on a quarterly basis for the Child Support Share of the DAG's expenditures based on time studies submitted by the DAG.

To ask for the return of these funds from DAG the Department of Human Services has to determine what other funding source will replace these funds at DAG. This issue is being shared with PriceWaterhouseCoopers, which is working on a reconciliation model for the DHS Cost Allocation Plan.

Furthermore, DHS will implement a procedure within this calendar year that will compare and compile quarterly the cost allocation schedules and the revenues transferred on a biweekly basis.

(02-51) Bureau of Child and Family Services

Child Care and Development Block Grant
CFDA#: 93.575, 93.596 **Questioned Costs:** None

Federal Award Number: G0101MECCD2, 3, & 4
G0201MECCDF

Finding: Failure to comply with subrecipient monitoring requirements (Prior Year Finding)

The Bureau of Child and Family Services of the Department of Human Services did not comply with requirements for monitoring subrecipients of the Child Care and Development Block Grant program. We tested 27 subrecipients that provide 41 separate child care programs and found that:

- nine programs had not been monitored in the last five years,
- twenty-three programs lacked documentation to support having tested client eligibility and/ or client fees,
- sixteen cases lacked documentation to support the follow-up of monitoring findings,
- the monitoring files noted many instances of client fees not being calculated properly, and
- the monitoring files noted many instances where either services were being provided to ineligible clients, or income information necessary to test client eligibility was not available.

Department of Human Services

The Office of Management and Budget requires grantees to monitor grant-supported activities to assure compliance with applicable federal requirements and to ensure that performance goals are being achieved.

Recommendation:

We recommend that the Department:

1. schedule subrecipient monitoring visits at no less than three year intervals,
2. establish a policy that requires retention of documentation in monitoring files specific to each client for whom eligibility and fees were tested,
3. require documentation of action taken on all monitoring findings, and
4. consider what immediate action should be taken to reduce the occurrence of incorrectly calculated client fees and provision of child care services to ineligible clients by the subrecipient.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

- *The Community Services Center has developed a database of all contracts that includes the date of the last monitoring visit. This database now allows us to track the monitoring visits to assure that monitoring of all agencies occurs at least once every three years.*
- *Each monitoring visit report contains a section on the review of client records. The Community Services Center contract administrator conducting the monitoring visits identifies each case reviewed and indicates the result of the review in terms of compliance with eligibility requirements, documentation of income and accuracy of calculation of parent fee. The Community Service Center's position is that this information is sufficient to determine the sub-recipient agency's compliance with eligibility and fee policies.*
- *The database mentioned above also includes an indication of the need for follow up to the last monitoring visit, as well as space to record the date such follow up was conducted. This will allow us to monitor the follow-up measures taken.*
- *Steps have already been taken to reduce the occurrence of incorrectly calculated client fees and the provision of service to ineligible clients. Errors in fee calculation and determination of eligibility are identified and discussed with sub-recipient management as part of each monitoring visit. Corrective action steps are identified and a follow up visit is scheduled. Failure to take corrective action will result in elimination of reimbursement for ineligible clients. In addition, the Community Services Center sent a letter to all sub-recipients on April 5, 2002. The letter identified several areas where monitoring visits were finding sub-recipients out of compliance with Department policy and stated procedures necessary to assure compliance. The letter also stated that after July 15, 2002, any client record reviewed as part of a monitoring visit that indicates non-compliance with eligibility policies will be considered ineligible, and services provided to these clients will not be reimbursable.*

Department of Human Services

(02-52) Bureau of Child and Family Services

Child Care Development Block Grant
<u>CFDA#</u>: 93.575, 93.596 **<u>Questioned Costs</u>:** $88,225

Federal Award Number: G0101MECCD2, 3, & 4
G0201MECCDF

<u>Finding</u>: Unallowable payroll costs (Prior Year Finding)

The Department of Human Services charged the Child Care Development Block Grant program for payroll costs of three employees who performed administrative duties involving several federal and or State programs. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Trial Governments*, allows costs to be charged to a federal program only to the extent that benefits are received. Circular A-87 further requires that a distribution of the salaries and wages of employees who work on multiple programs be supported by personnel activity reports signed by the employee.

We question $88,225, the amount that we determined to be allocable to activities other than the Child Care Development Block Grant.

<u>Recommendation</u>:

We recommend that the Department develop procedures to ensure that salaries and fringe benefits are allocated to programs based on benefits received and that the distribution of salary and wages of employees who work on multiple programs is adequately supported.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Jeannette Talbot

The positions that are in question are being transferred out of the Child Care Development Block Grant in the 2004/2005 Budget, effective July 1, 2003, as this required Legislative action. This was approved in Chapter 20, LD1319, Page 229. The Department will submit payments to the Federal Government when presented with a bill for payment.

Department of Human Services

(02-53) Bureau of Child and Family Services

Child Care Development Block Grant
<u>CFDA#</u>: 93.575, 93.596 **<u>Questioned Costs</u>:** None

Federal Award Number: G0101MECCD2, 3, & 4
G0201MECCDF

<u>Finding</u>: Inaccurate federal financial reporting (Prior Year Finding)

The Department of Human Services submitted quarterly financial reports that included numerous errors to the federal granting agency. Accounting staff responsible for submitting the federal financial reports was unaware of all accounts being used to record program activity. The following variances were found between the reported amounts and the State's accounting records:

1. expenditures of the Mandatory Fund were under-reported by $300,
2. federal expenditures of the Matching Fund were under-reported by $127,519,
3. expenditures of the Discretionary Fund were under-reported by $1,445,478, and
4. the amount transferred from the Temporary Assistance for Needy Families program was under-reported by $214,720.

In addition, we noted errors in reported cumulative award amounts that, along with previously mentioned expenditure errors, resulted in an inaccurate calculation of the unobligated balance.

<u>Recommendation</u>:

We recommend that the Department of Human Services reconcile federal reports to the State's accounting records and ensure that all accounts have been reported to Departmental accounting staff before they are filed. We further recommend that all quarterly financial reports for fiscal year 2002 be corrected, and corrected copies be sent to the federal granting agency.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Patricia V. Shaw

There were additional report orgs added to the Discretionary Fund, which was not communicated to the Account Manager. A system has been set up to correct report orgs from the Program Manager and to compare all report orgs at the start of the new grant year.

Reporting of the TANF program now requires that the Account Manager for TANF furnish a copy of the TANF report showing actual monies reported. These are located with the Child Care Development Fund Report 269.

Department of Human Services

Cumulative grant award amounts are not always available when the quarterly reports are prepared, as award letters may be received at any time during the quarter. By the end of the grant all letters have been received and are shown on the final report.

All quarterly reports have been refigured and submitted to the Federal Government.

(02-54) Bureau of Child and Family Services

Title IV-E: Foster Care
CFDA#: 93.658 **Questioned Costs:** None

Federal Award Number: 0201ME1401

Finding: Inadequate suspension and debarment procedures (Prior Year Finding)

The Department of Human Services has no established policies and procedures in place to ensure compliance with suspension and debarment requirements for contracts made on behalf of the Foster Care Program. Title 45 CFR 76.200 prohibits non-federal organizations from contracting with parties that are suspended or debarred. Contractors receiving awards of $100,000 or more must certify that the organization and its principals are not suspended or debarred.

Of the three contracts subject to the suspension and debarment requirements, we found that none of them contained the required suspension and debarment certification.

Additionally, the Department does not check contractors' names against the federal excluded parties list. Instead, the Department relies on a list of *Maine Medicaid Sanctions* prepared by the Bureau of Medical Services. This list is purported to be a summary of the individual federal notifications of excluded parties. However, it was determined that this list is incomplete.

Recommendation:

We recommended the Department require all contractors who are awarded $100,000 or more to certify that the organization and its principals are not suspended or debarred. We further recommended that the Department verify that a contractor is not excluded from receiving federal funding, by checking the name against the federal excluded parties list.

Auditee Response/Corrective Action Plan:

Contact Person: Brian Snow & Carol Armour

The Department will amend section 7 of its Rider D in all of its contracts, after consultation with appropriate federal official. The Department will also move forward with the development of a written procedure for monitoring compliance with the debarment and suspension provision, which would include, but need not be limited to, checking the "List of Parties Excluded from Federal Procurement and Non-procurement Programs" at appropriate times during the procurement process and the carrying out of the Agreement. These actions will occur by August 1, 2003.

(02-55) Bureau of Child and Family Services

Title IV-E: Foster Care
CFDA#: 93.658 **Questioned Costs:** $68,401

Federal Award Number: 0201ME1401

Finding: Title IV-E payments made to unlicensed providers

During fiscal year 2002, the Department of Human Services made benefit payments of $68,401 to providers on behalf of sixty-five ineligible foster children that the Department's Maine Automated Child Welfare Information System (MACWIS) had properly coded as being in unlicensed placements.

These program expenditures were coded with the service code identified as "800 - Unlicensed Facility." MACWIS uses coded expenditure data for the processing of Child Welfare payments. The manager of the information systems unit at the Bureau of Child and Family Services confirmed that expenditures paid under this service code were to unlicensed providers, and should not have been charged to the Title IV-E Foster Care program.

Recommendation:

We recommend that the Department implement additional controls to provide assurance that system-generated program payments be made from the correct program accounts only on behalf of eligible recipients.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Carol Armour

The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement costs) have substantially improved the proper coding from the correct program funding for system-generated program payments. An analysis of payments made in March 2002 showed Title IV-E payments made incorrectly to unlicensed providers for 18 children. In March 2003 BCFS testing found there were <u>no</u> Title IV-E payments made to unlicensed providers.

(02-56) Bureau of Child and Family Services
Division of Financial Services

Title IV-E: Foster Care
<u>CFDA#</u>: 93.658 **<u>Questioned Costs</u>:** $48,047

Federal Award Number: 0201ME1401

<u>Finding</u>: Costs claimed more than once and ineligible participants included (Prior Year Finding)

The Department of Human Services reported and was reimbursed for the same expenditures twice. The Department uses certain account codes to report Foster Care expenditures in the State's accounting system (MFASIS). In addition to these codes, the Department obtains reports from the Maine Automated Child Welfare Information System (MACWIS) of other qualifying expenditures that are initially charged to other accounts. The Department submits both the direct charges and other amounts reported as program expenditures for reimbursement.

The Department submitted qualifying expenditures for transportation and daycare on the transportation and daycare reimbursable reports. We found that the expenditure totals for transportation and daycare included both Federal Expenditure Fund and General Fund Foster Care direct charge accounts. These accounts are included as reported expenditures in the MFASIS system; the Department included them in the MACWIS report, thereby reporting them twice. Our testing of these accounts identified $48,047 in known questioned costs.

Additionally, transportation and daycare reimbursement reports obtained from MACWIS included ineligible participants. These ineligible participants were initially charged to the Foster Care program through these reports but were later determined not to be eligible. The Department does not have a process in place to capture ineligible participant expenditures recorded through reimbursement reports and to eliminate these unallowed expenditures.

Recommendation:

We recommend that the Department review all sources of recorded expenditures and identify which funds and accounts are used and how and when they are reported. One individual should be responsible for reporting program activity and for ensuring that program expenditures are not reported and reimbursed more than once. That one individual should have an understanding of all the source information utilized in the reporting process. Additionally, the Department should implement procedures to identify any costs claimed on behalf of ineligible participants.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

By September 30, 2003 the system programmers will research and rewrite the IT programs used to generate the MACWIS daycare and transportation reports in order that future duplication and eligibility errors will be eliminated. One person has been designated to review each report for accuracy before the expenditures are included in the federal reimbursement reports. Federal reporting allows adjustments to be made retroactively for eight quarters; therefore, the BCFS will analyze the reports for quarters beginning October 1, 2001 through March 31, 2003 for any duplication and eligibility errors. The adjustment needed to correct this audit finding will be submitted to the DHS Division of Financial Services by June 30, 2003 to be included as part of the federal report submitted in July 2003.

Rhonda Parker, BCFS, will be the point person.

(02-57) Division of Financial Services

Title IV-E: Foster Care
CFDA#: 93.658 **Questioned Costs:** $8,286,840

Federal Award Number: Various

Finding: Foster Care grant overdrawn (Prior Year Finding)

The Department of Human Services (DHS) overdrew the Title IV-E Foster Care grant as compared to reported expenditures by approximately $8.3 million. This overdraw amount is the net accumulation of over and under-draws for several grant periods. For federal fiscal year 2002, the overdrawn amount of $1.9 million was the result of the Title IV-E Foster Care program drawing down funds to pay for the Title IV-E Adoption Assistance portion of “shared costs”.

Recommendation:

We recommend that the Department of Human Services revise their procedures for drawing down federal funds. Federal funds drawn down should correlate to reported expenditures.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw

In doing an analysis of the Foster Care Grant, there were problems of using current year expenditures to use up previously awarded funds. This procedure was stopped in the FY 2002 and the Department is using only current Grant Award to cover current expenditures. Once the Grant year has been completed there will be reconciliation, and when funds do not an adjusting draw will be completed. This has been done for the FY 02 Grant. The (PSC) Program Support Center will reflect this in the Quarter ending 06/30/03.

At the present time there is a corrective action plan in place to draw down additional Adoption Assistance funds on a weekly basis, which will reduce the over draws to federal Foster Care for the "shared costs". It is expected that this plan will correlate the expenditures and the cash draws in both programs.

(02-58) Division of Regional OMB Operations
Bureau of Child and Family Services

Title IV-E: Foster Care
CFDA#: 93.658 **Questioned Costs:** None

Federal Award Number: 0201ME1401

Finding: Control deficiencies over eligibility data (Prior Year Finding)

The Department of Human Services does not have adequate controls in place for the Title IV-E Foster Care program to ensure compliance with program eligibility requirements. Title 45 CFR 1355.54(g) states that quality assurance monitoring should provide reasonable assurance that information maintained by the State's automated child welfare information system is tested for accuracy, completeness and compliance with federal requirements and State standards. Title 45 CFR 1356.21 (g) states that the State must review the amount of payments made for foster care maintenance assistance at reasonable, specific, time-limited periods, to assure their continued appropriateness. We noted the following exceptions:

1. Due to misinterpretations of how Title IV-E eligibility information was processed during the automated eligibility determination process, staff of the Division of Regional OMB Operations (DROMBO) did not properly review data to ensure that the correct information was entered in the Maine Automated Child and Welfare Information System (MACWIS). Title IV-E eligibility data is used during the automated IV-E determination process to automatically change the eligibility status of clients and to charge accounts for payments. Incorrect Title IV-E data will result in the wrong State or federal account being charged.

2. Although inadequately trained personnel caused automated Title IV-E determinations and adoptive placement activity to be incorrectly maintained in the MACWIS system, programmed edits in MACWIS appeared to be solely responsible for incorrect Title IV-E Licensure Status used by Departmental personnel.

Recommendation:

We recommend that the Department immediately address the training issues that result in the incorrect processing of Title IV-E eligibility within MACWIS. We further recommend that the Department establish quality control review procedures, and regularly review program cases to ensure that coding is correct, that participant data is accurate, and that payment is made only to eligible participants.

We recommend that, given the recent technological changes in the work environment of the Bureau of Children and Family Services, an increased number of new employees and the Bureau's commitment to a "paperless work environment," the Bureau document all procedures that require manual updates. We recommend that the Bureau also document the interaction between MACWIS screens.

In addition, we recommend that adequate controls within the automated Title IV-E determination process be implemented to provide assurance that that discrepancies or inconsistencies in MACWIS eligibility information would be recognized. Sufficient reminders or system prompts should exist within the system programming that would require a review of key information used by MACWIS before any changes in the Title IV-E status of a client are made.

We recommend that a process be established to identify any known and new programming problems within MACWIS and to immediately correct programming problems that have been identified.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

Recommendation 1: DROMBO Training. DROMBO staff had training prior to the roll out of the Automated Title IV-E Enhancement to MACWIS in June 2002. A follow-up statewide training

occurred in March 2003 that will help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Recommendation 2: DROMBO has assigned a Financial Resources Specialist to do Quality Assurance of the Title IV-E eligibility. An annual of 500 cases Statewide will be conducted to ensure that the client status codes in MACWIS are correct.

Recommendation 3: By July 1,2003 New Help screens for the Eligibility Module will be available to users that will document all manual update procedures and the resulting interaction between MACWIS screens.

Recommendation 4: Additional refinements of the Automated Title IV-E Enhancement in MACWIS have been on going since roll out and will be completed by September 2003. These refinements include additional system prompts, ticklers and screen changes that are expected to meet this recommendation.

Recommendation 5: The BCFS Program Specialist II (MACWIS Director) believes that this process is already in place. Current MACWIS procedures call for routine testing every time our system deploys software updates (every other month, or sooner). Testing is done by our vendor, and by our testing team. If problems are found within the system they are either fixed immediately, or a work plan is established and work begins to remedy the problem as quickly as possible.

(02-59) Bureau of Child and Family Services

Title IV-E: Foster Care and Adoption Assistance

CFDA#:	93.658 (Foster Care)	**Questioned Costs:**	$24,773
	93.659 (Adoption Assistance)		$11,391

Federal Award Number: 0201ME1401 (Foster Care)
0201ME1407 (Adoption Assistance)

Finding: Inadequate controls over accounting for and reporting Title IV-E shared costs (Prior Year Finding)

The Department of Human Services has inadequate control over accounting for Title IV-E shared costs associated with the Adoption Assistance and Foster Care programs. Controls are not sufficient to prevent errors in tracking and recording of transactions regarding cash management, grant award funding, federal reporting, and program costs. The Department's procedures for accounting for administrative and other qualifying expenditures are highly complex and prone to error. This resulted in the accounting records not truly reflecting the sources and uses of funds. The approach used by the Department to allocate Title IV-E Shared

costs is so complex, and resulting human error was so pervasive, that the general basis for many costs claimed during the year did not appear sound.

Department cost allocation schedules for Title IV-E shared costs have been federally approved, but need to be updated to adequately reflect current methods used. Inadequate review and reconciliation practices resulted in duplicate reported costs, inappropriate cost content, inconsistent computation of factors, and inconsistent application of methodology to account for and report Title IV-E shared costs. Furthermore, the Department's process to reimburse the Foster Care program for cash drawn to cover the immediate needs of both Title IV-E programs does not guarantee that the Foster Care grant award will be adjusted. Erroneous data supplied by the Bureau of Child and Family Services was used for eight months of the year.

We question $24,773 in costs for the Foster Care program, and $11,391 in costs for the Adoption Assistance program, due to International Adoption costs claimed both as current period costs for adoption assistance and again, as prior period costs for both programs. We were unable to determine the amount of additional questioned costs that exist because reliable data was not available for re-computing cost factors, because the extent of mathematical inaccuracies was excessive, and because inconsistent application of cost information used as a basis for claims was so pervasive.

Recommendation:

We recommend that the Department implement and engage in reasonable review and reconciliation practices. We further recommend that it document its current use of funds and accounts to prevent additional errors from occurring. We also recommend that it restructure its use of accounts to simplify program accounting and to clearly reflect account activity and funding sources. Finally, we recommend that the Department adjust the cash records of cash draws to accurately reflect the funding source, to correctly credit the Foster Care program grant award and to charge the accounts of the Adoption Assistance program and any other affected program.

Auditee Response/Corrective Action Plan:

Contract Person: Patricia V. Shaw

A new Cost Allocation Amendment (CAP) for the Title IV-3 Foster Care Program was submitted to the Department of Health and Human Services Division of Cost Allocation for review and approval on 03/18/2003. To date there has been no response from the Federal Government. When this CAP is approved, it will be easy to follow, and will eliminate the current complexity. We expect it will also result in less human error.

In the new CAP duplication of cost, inconsistent computations of factors and inconsistent application of methodology to account for "shared costs" have all been addressed. Duplication

of cost has been identified and removed from the spreadsheet. Also, a Procedures Manual has been written that includes the explanation of the calculation and the usage of the factors.

When the new CAP is in place for weekly cash draw downs of Adoption Assistance Federal Funds, it will reflect the correct funding source and will eliminate the over drawing of Foster Care Federal Funds.

(02-60) Bureau of Child and Family Services

Title IV-E: Foster Care and Adoption Assistance
CFDA#: 93.658 (Foster Care)
93.659 (Adoption Assistance)

Questioned Costs: None

Federal Award Number: 0201ME1401 (Foster Care)
0201ME1407 (Adoption Assistance)

Finding: Inadequate controls over accounting for the Title IV-E Programs (Prior Year Finding)

The Department of Human Services does not have adequate control over its accounting for two Title IV-E programs, Adoption Assistance and Foster Care. Controls did not prevent errors in tracking and recording of transactions regarding match requirements, grant award funding, and program costs. The Department's procedures to account for administrative and other qualifying expenditures are highly complex and prone to error, which results in accounting records not accurately reflecting the sources and uses of funds.

The Department compensates for inaccuracies in the automated application of federal participation rates during the year by choosing not to use the federal/State split amounts for payments calculated by its automated system, MACWIS, but by aggregating both State and federal accounts and then applying the appropriate funding rate by category when preparing the financial reports.

The Department never reconciles or adjusts for inconsistencies between expenditures reported to the federal government and those reported in the State's accounting system.

Recommendation:

We recommend that the Department take steps to ensure that expenditure amounts recorded in the State accounting system accurately reflect expenditures incurred by the programs during the year, and that costs reported to the federal government are reconciled to the accounting system. We recommend that it document its current use of funds and accounts to prevent additional errors from occurring. We finally recommend that the Department implement and engage in reasonable review and reconciliation practices.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Carol Armour

The MACWIS system reports are being worked on currently by IT staff for accuracy. It is expected that they will complete this work by June 1, 2003, and thereafter the reports will be fully utilized to prevent errors.

BCFS staff overlooked a change in the FFP rate for one Federal Fiscal Year and did not change the FFP rate in MACWIS. The Division of Financial Services staff distributes information about FFP rates to multiple BCFS staff and the MACWIS Director will ensure a wider audience is aware of the rates prior to October 1 each year.

(02-61) Bureau of Child and Family Services

Title IV-E: Foster Care and Adoption Assistance
<u>CFDA#</u>: 93.658 (Foster Care) **<u>Questioned Costs</u>:** $49,534
93.659 (Adoption Assistance) None

Federal Award Number: 0201ME1401 (Foster Care)
0201ME1407 (Adoption Assistance)

<u>Finding</u>: Inadequate controls over program payments (Prior Year Finding)

The Department of Human Services has inadequate controls in place to ensure that payments made on behalf of Title IV-E programs are made for the correct amounts and charged to the correct federal program. Title 45 CFR 1356.21(g) states that in meeting the requirements of section 471(a)(11) of the Act, the State must review the amount of payments made for foster care maintenance and adoption assistance at reasonable, specific, time-limited periods to assure their continued appropriateness.

We tested payments associated with 44 subsidy cases of the Adoption Assistance Program for compliance with allowable costs and allowable activity requirements and found errors in six of them.

Payments for three of the cases were made to individuals at incorrect daily reimbursement rates. Also, in some instances the correct rate was paid for one payment type but an incorrect rate for another payment type for the same child. No questioned costs resulted, as all three of these program participants were underpaid when the reimbursement rate was not increased as the child's age increased.

Payments made for three other of the cases were paid by the Foster Care program, rather than by the Adoption Assistance program. These were Adoption Assistance clients and all had been

adopted by April 3, 2001. We question $7,217, the amount of unallowable payments charged to the IV-E Foster Care program.

Analysis conducted to determine if the correct IV-E program had been charged for subsidy payments on behalf of seventy-two children, recorded as Title IV-E Adoption Assistance program clients, similarly indicated that controls over program payments were inadequate. Subsidy payments totaling $35,100 were made on behalf of ten of these children from Title IV-E Foster Care accounts who had adoptive parents. Adoption decree dates were verified to be correct for each of these children, yet payments from the Foster Care program were not discontinued. Payments generated on behalf of these children totaled $42,317, which we question.

Recommendation:

We recommend that the Department periodically review the appropriateness of program subsidy payments to ensure consistent coding, use of current and correct rates, and proper payment to eligible clients of the Title IV-E programs.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement costs) have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 should help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Adoption Program Staff developed checklists to follow for recording Adoption Assistance applications and approvals on MACWIS. This has helped standardize the recording process statewide.

Department of Human Services

(02-62) Bureau of Child and Family Services

Title IV-E: Adoption Assistance
CFDA#: 93.659 **Questioned Costs:** None

Federal Award Number: 0201ME1407

Finding: Internal control deficiencies over the program to track program recipients

Multiple internal control deficiencies were noted regarding the ability of the Department of Human Services to track eligible recipients of the Adoption Assistance program. Program personnel do not appear to have sufficient controls in place to ensure accurate and complete tracking of program eligible clients.

Because edits within the Maine Automated Child Welfare Information System (MACWIS) appeared inadequate, program personnel maintained a separate database of eligible recipients. Analysis conducted during the audit indicated that the content of client count information maintained by program personnel was inaccurate and unreliable. This database maintained as a control by program personnel was ineffective, primarily due to the following:

- Program personnel failed to update the Title IV-E funded client database because eligibility information had not yet been updated in MACWIS.
- Caseworkers are able to initiate program payments for children placed in adoptive homes without the approval or notification of adoption assistance program personnel. Testing results indicated the timelag before program personnel were aware that some new clients had entered the program was an average of 11.4 months.
- Although Child Welfare supervisors are required to authorize Title IV-E program payments to commence, testing indicated that procedures for discontinuing payments for children who become ineligible are not effective.
- Case files maintained by program personnel do not contain necessary documentation to determine if clients are eligible for Title IV-E benefits. This information is maintained by a separate unit within the Department. No review can be conducted by program financial resource specialists to ensure that client status codes in MACWIS are correct.

Recommendation:

We recommend that the Department implement procedures that would ensure that the proper communication between the different entities within the Department takes place to verify the eligibility of program recipients. We recommend that the Department correct system problems in MACWIS so that eligibility information maintained in it is reliable. Finally, we recommend that

the Department review its procedures governing changes made in MACWIS to ensure its accuracy, completeness and compliance with federal requirements and State standards.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Carol Armour - 287-5060

- *The database referenced is a personal database and not the official MACWIS IT System Database for Adoption Assistance. BCFS will provide to the Auditor all access and training necessary in order to obtain the necessary Adoption Assistance information from the MACWIS IT System.*
- *October of 2002 adoption caseworkers were presented with a new adoption checklist form, and instructed in the use of that form. This standardized the process of moving cases on to the adoption assistance unit and shortened the amount of time.*
- *The automated Title IV-E system that was initiated in June of 2002 has substantially improved the proper coding from the correct program funding for system generated program payments. With this system anytime the eligibility status changes the proper funding is attached automatically.*
- *The program, meaning DHS Bureau of Child and Family Services (BCFS), does not do the Title IV-E determination. The DHS Division of Regional Office of Management and Budget Operations, DROMBO, determines Title IV-E eligibility with this the case files are maintained in their associated work areas. The program has access to these files, but does not maintain them.*

The Quality Assurance of the Title IV-E eligibility has been assigned to a DROMBO Financial Resource Specialist. A periodic review of approximately 500 cases statewide annually will be conducted to ensure the client status codes in the Title IV-E eligibility frames of MACWIS are correct.

(02-63) Bureau of Child and Family Services

Title IV-E: Adoption Assistance
<u>CFDA#</u>: 93.659 **<u>Questioned Costs</u>:** None

Federal Award Number: 0201ME1407

<u>Finding</u>: Inadequate controls to ensure compliance with federal eligibility and match requirements (Prior Year Finding)

The Department of Human Services did not have adequate controls in place to provide reasonable assurance that federal compliance requirements for eligibility and match data were

met. Title 45 CFR 1355.54(g) states that quality assurance monitoring should provide reasonable assurance that information maintained by the State Automated Child and Welfare Information System (SACWIS) should be quality control tested for accuracy, completeness and compliance with federal requirements and State standards. Title 45 CFR 1356.21(g) states that the State must review, at reasonable, specific, time-limited periods, the amount of payment made for foster care maintenance and adoption assistance to assure their continued appropriateness. We noted the following exceptions:

- The Department, using the Maine Automated Child Welfare Information System (MACWIS), was not able to adequately identify children who were eligible to receive program subsidy payments and could not report accurately all who received program payments during a specified time frame. Data provided to support time spent working on Title IV-E program cases was acknowledged to be erroneous. Reviews of payments, made to assure that only eligible individuals receive program subsidies, do not appear to be effective.

- Inaccurate participant data not only results in payments to ineligible recipients, but may also affect the allocation of program revenue and expenditures. The Department uses MACWIS data and factors for both the Cost Allocation Plan and to calculate Title IV-E Shared Costs. If the reported data and factors are incorrect, costs will not be accurately allocated.

- Client count information maintained by MACWIS was found to be significantly inaccurate and payments to a significant number of ineligible recipients also indicated that this data was unreliable.

- Finally, the federal participation rate changed during the fiscal year from 66.12% in the first quarter to 66.58% for the remainder of the year. This rate change was not input into MACWIS, so incorrect rates were applied for the first quarter of the year. However, the correct federal participation rate was received by the State because the financial reports requesting federal funds are prepared without using MACWIS coding but by aggregating both State and federal accounts and then applying the appropriate funding rate by category. The Department never compares or adjusts for inconsistencies between the expenditures reported to the federal government and those recorded in the State's accounting system, therefore recorded amounts remain incorrect.

Recommendation:

We recommend that the Department immediately address the eligibility problem identified within MACWIS. We recommend that the Department establish quality control review procedures and regularly review program cases to ensure that coding is correct, that participant data is accurate, and that payment is made only to eligible participants.

Given the recent technological changes in the work environment, an increased number of new employees, and a stated commitment toward the achievement of a "paperless work environment," we recommend that management document any procedures that require manual

updates. We further recommend that management document the relationship between MACWIS screens.

Auditee Response/Corrective Action Plan:

Contact Person: Carol Armour

The MACWIS Automated Title IV-E Enhancement Roll Out in June 2002, and a December 2002 refinement of the funding matrix used by MACWIS for the Child Welfare Payroll (Placement Costs), have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 will help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

The Quality Assurance of the Title IV-E eligibility is being assigned to a DROMBO Financial Resources Specialist. An annual statewide review of approximately 500 cases will be conducted to ensure that the client status codes in the Title IV-E eligibility frames and the financial screens of MACWIS are displaying the proper eligibility status, and funding account codes.

Also, the BCFS Program Specialist II (MACWIS Director) is now assigned the duty of documenting all MACWIS procedures requiring manual updates, and training necessary for employees to understand resulting interaction between MACWIS screens.

(02-64) Division of Regional Offices of Management and Budget Operations

Title IV-E: Adoption Assistance
CFDA#: 93.659 **Questioned Costs:** None

Federal Award Number: 0201ME1407

Finding: Documentation to support eligibility not maintained

We were unable to obtain sufficient documentation from the Department of Human Services, Division of Regional Offices of Management and Budget Operations, or from the Bureau of Child and Family Services to support the eligibility of children who had received Title IV-E Adoption Assistance subsidy payments during the year.

Thirteen of the sixty case files that were requested could not be provided to the auditor for review. Division personnel statewide believed, erroneously, that these case files could be destroyed because they were no longer open IV-E Foster Care files. Departmental staff was not

aware that these pre-adoptive case materials must be maintained once the legal adoption was finalized.

Evidence was sufficient to substantiate that in seven of the thirteen missing test cases, the child would have been found eligible on other acceptable bases of IV-E eligibility determination. Documentation to support program eligibility could not be substantiated for the remaining six cases, resulting in $35,806 of questioned costs presented in (02-41).

Recommendation:

We recommend that the Department adequately maintain documentation to support the eligibility assessment for all children until those participants exceed program age and education requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Rebecca Nichols

The Division of Regional OMB Operations (DROMBO) has updated it's Title IV-E policy manual to include a records retention section.

The current policy states:

G. RECORD RETENTION

Once a case is closed, keep the Title IV-E files for 3 years beyond the 18th birthday. This is for both foster care and adoption.

(02-65) Community Services Center,
Division of Contracted Community Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs:** None

Finding: Improper transactions

An employee of the Department of Human Services, Division of Community Services, intentionally authorized payments totaling $434,062 for non-existent bills. The intent of the action was to prevent $322,915 in General Fund money from lapsing. The 27 checks were drawn from the General Fund ($322,915), the Federal Expenditure Fund ($1,012) and the Federal Block Grant Fund ($110,135). Of those payments, 16 were made with federal funds, and 7 of these ($86,030) were from the Social Services Block Grant funds. These checks were processed

without legitimate obligations to the federal programs and with no intent to make payment to the payees. Rather then being mailed to the payees, the checks were returned to the employee, who held them in a desk drawer. The amount of the checks was based on balances remaining on encumbered contracts, which were about to lapse to the respective fund balances. Three months into the next fiscal year, the checks were voided, effectively making the funds available to the Division of Community Services for future use. All of the funds were redeposited into State accounts, but not into the same funds in the amounts as originally drawn. The General Fund received $134,792, the Federal Expenditure Fund received $62,659, the Special Revenue Fund received $84,153, and the Federal Block Grant Fund received $152,458.

These transactions also resulted in federal funds being drawn without proper justification, and in violation of Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* and 31 CFR 205.20 which states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of allowable indirect costs.

The Schedule of Expenditures of Federal Awards was overstated by $111,147 for the period ending June 30, 2001, an amount that is immaterial to the schedule and the federal programs.

The Division of Community Services did not have effective controls in place to prevent checks from being sent to the employee without proper justification or approval from the Division of Financial Services. However, controls were developed soon after this issue was brought to the attention of management of the Department of Human Services.

Recommendation:

We recommend that the Division of Community Services comply with federal regulations by limiting its draws of federal funds to actual cash needs, and by using funds only for the benefit of the program for which they are drawn. We further recommend that the Department of Human Services complete its examination of the current procedures that enabled these transactions to be processed and establish internal controls to prevent a recurrence of this type of activity. We also recommend that the Department comply with State procedures regarding the lapsing of encumbered funds. Finally, we recommend that any funds that originated from the General Fund be returned to that fund.

Auditee Response/Corrective Action Plan:

The above incident was a one-time occurrence. The Community Services Center complied with federal regulations on federal drawdowns prior to this incident and has been in compliance since this incident.

Department of Human Services

The Department of Human Services has implemented internal controls within the Division of Financial Services to prevent the recurrence of this type of activity. Any payment (check) that normally is sent directly from the State Treasurer's office to the vendor, but is instead requested to be "flagged" to go to the employee initiating said payment, must be first justified in writing to the Finance Director or the Deputy Finance Director, and receive written prior approval.

The Department of Human Services is in compliance with state procedures regarding the lapsing of encumbered funds.
State General Funds related to this incident have been returned to the unappropriated fund balance of that fund.

(02-66) Office of Management and Budget
Division of Financial Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs:** None

Federal Award Number: G0101MESOSR
G0201MESOSR

Finding: Inaccurate federal financial reporting

The Department of Human Services did not have internal controls in place to ensure accurate federal financial reporting. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires grantees to maintain internal control over federal programs to provide reasonable assurance that they are managing federal programs in compliance with agreements.

The SF269A Financial Status Report that was filed for the federal fiscal year 2001 by the Department of Human Services reported grant expenditures of $9.4 million for one Social Services Block Grant award, with a negative $1.5 million unobligated balance. The unobligated balance should have been reported as approximately $3 million. The Department erroneously reported prior grant expenditures of $1.5 million under this award and underreported total federal funds authorized by $3 million.

The SF269A Financial Status Report that was filed for the federal fiscal year 2002 by the Department of Human Services reported grant expenditures of $6.8 million for another Social Services Block Grant award, with an unobligated balance of $3.7 million. The unobligated balance should have been reported as approximately $4 million. The Department erroneously reported disbursements related to other grant expenditures of approximately $250,000 resulting in the understatement of the unobligated balance at September 30, 2002.

Recommendation:

We recommend that the Department of Human Services establish controls to ensure accurate SF269A reporting.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw

Each report has been corrected to reflect the correct amount of unobligated balance. The FSR report 269 for the period of 10/01/00-09/30/02 now shows a balance of 0. The FSR report for the period of 10/01/01-09/30/03 has been corrected and now reflects a balance of $3,941,351.

A spreadsheet has been developed and will be maintained that will reflect each year's grants, the amount spent and the unobligated balance.

(02-67) Bureau of Family Independence

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 50205ME5028
50205ME5048

Finding: Procedures do not ensure compliance with Medicaid Eligibility Quality Control rules and procedures (Prior Year Finding)

Since federal fiscal year 1996, the State's Quality Assurance Unit has not provided the Centers for Medicare and Medicaid Services (CMS) with the required error calculation reports. In the absence of these reports, CMS cannot be assured that the State of Maine's error rate is below the required threshold of three percent. Although the Department has attempted to calculate payment error rates, it did not use the statistical formula contained in the State Medicaid Manual.

Title 42 CFR 431.865 requires that each State have a payment error rate no greater than three percent for each annual assessment period, or be subject to a disallowance of Federal Financial Participation. The payment error rate is the ratio of erroneous payments for medical assistance to total expenditures for medical assistance.

Also, the Department developed a basic Medicaid Eligibility Quality Control (MEQC) sampling plan, but does not appear to have submitted it for approval. Title 42 CFR 431.814 requires an agency to submit a MEQC sampling plan to CMS for approval. The unapproved MEQC Positive

Sampling Plan did not contain the following components as required by the State Medicaid Manual:

- Sample size
- Accuracy and completeness of the sample selection lists
- Number of items on the sample selection lists
- Expected number of cases to be selected
- Detailed description of the procedures used in selecting the sample review cases

Recommendation:

We recommend that the Quality Assurance Unit:

1. provide CMS with past due error rate information,
2. calculate MEQC error rates using the prescribed statistical formula,
3. submit a sampling plan to CMS for approval, and
4. include in the sampling plan all of the components and descriptions required by the State Medicaid Manual.

Auditee Response/Corrective Action Plan:

Contact Person: Barbara VanBurgel

The Bureau of Family Independence (BFI) has contacted the Federal Centers for Medicare and Medicaid Services (CMS) and held a conference call to discuss the statistical formula.

On May 22, 2003 BFI staff are meeting with the Federal statistician to develop the statistical spreadsheet that will calculate the appropriate error rate and the lower limit as required by CMS. BFI has determined the numerical figures that are to be used in the spreadsheet.

By July 1, 2003, BFI will have delivered to CMS all of the error rates and lower limits required for the past years. BFI will continue to be in contact with CMS in order to obtain the appropriate confirmations.

In addition, BFI has already submitted information to CMS regarding a special targeted sampling. BFI will continue to work together with CMS to finalize the details on this sampling.

Department of Human Services

(02-68) Bureau of Family Independence

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** $330,860

Federal Award Number: 50205ME2028
50105ME2028
50005ME2028

Finding: Payment made to ineligible recipient; lack of eligibility documentation

The Department of Human Services' Bureau of Family Independence relied on inaccurate data to determine eligibility for one recipient in our eligibility sample, and did not retain eligibility documentation for another recipient. We tested 40 case files for adherence to Medicaid eligibility requirements. One recipient was originally eligible because of Social Security Disability eligibility; however, Social Security eligibility was suspended in 1998. We therefore question costs of $53,138 for fiscal year 2000, $145,289 for fiscal year 2001 and $102,173 for fiscal year 2002, the amounts paid on the recipient's behalf for dates of service in these fiscal years. Another file contained no eligibility information for fiscal year 2002. Per agency staff, the records were inadvertently deleted. We therefore question costs of $30,260, the amount of claims paid on the recipient's behalf for dates of service in fiscal year 2002.

Recommendation:

We recommend that the Bureau of Family Independence confirm Social Security Disability data and maintain eligibility records in accordance with the State's record retention policy.

Auditee Response/Corrective Action Plan:

Contact Person: Barbara VanBurgel

Since this audit, the Bureau of Family Independence has implemented an Automated Client Eligibility System (ACES), which has an electronic interface to the Social Security Administration for the data required to determine eligibility. This interface is expected to be fully functional by the end of June 2003. The entire client case record is integrated between Social Security, Medical Review Team, Eligibility, etc. The electronic data will remain in the electronic system indefinitely.

Department of Human Services

(02-69) Bureau of Medical Services

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 50205ME2028

Finding: Incorrect third party liability data

The computer system used by the Department of Human Services for Medicaid recipient information contained inaccurate third party liability data. Our test of 40 paid claims showed one claim that was paid in error. The Medicaid recipient had applicable insurance as of the date of service and the claim should have been denied. The claims processing computer system accepted the claim as valid because the date entered onto the computer system was wrong. Known questioned costs are $3,335, which is the amount of claims paid on the recipient's behalf for dates of service in fiscal year 2002. We did not project this questioned cost to the rest of the population, as the population that may have applicable insurance is not easily measured.

Recommendation:

We recommend that the Bureau of Medical Services initiate a system to ensure that third party liability data is entered correctly onto the applicable computer systems.

Auditee Response/Corrective Action Plan:

Contact Person: Sharon Patten, Rossi Rowe, Third Party Liability Unit, Division of Finance, BMS

TPL will perform an annual audit on cases where the third party coverage was data entered into the member record with an insurance plan end date in the previous 12 months. The audit will consist of a random sample of 2.5% of the cases noted above. An analysis will be performed to determine if further corrective action is needed, which could include claim submission to the third party, if appropriate. We expect to begin sampling by January 2004.

Department of Human Services

(02-70) Bureau of Medical Services

Medical Assistance Program
CFDA#: 93.778 **Questioned Costs:** $15,869

Federal Award Number: 50205ME2028

Finding: Lack of controls to ensure accurate payment of case management claims

The Department of Human Services' Bureau of Medical Services does not have adequate controls in place to prevent case management claims from being paid twice. We reviewed all claims submitted by the Bureau of Child and Family Services in a four-month period. Of the $7.3 million in claims that we examined, we questioned $15,869, the amount of the duplicate payments. The Bureau of Child and Family Services submitted case management claims totaling $24 million during State fiscal year 2002; therefore, the projected questioned costs are $48,269. It appears that the claims processing system does not have the proper edits in place to deny duplicate claims.

It also appears that the claims processing system has no effective controls to ensure that case management services are not duplicated by other providers. We reviewed progress notes for twenty-four case management claims submitted by State agencies. Six recipients received services by another provider in addition to the services provided by the State agency. There was no mention in the progress notes of any contact with another case management provider. Per the MaineCare Benefits Manual, Chapter II, section 13, "case managers will avoid duplication of services." Expenditures for case management services totaled over $50 million in fiscal year 2002.

Recommendation:

We recommend that the Bureau of Medical Services determine methods to ensure that claims are not paid twice and that case management services from more than one provider are monitored for duplication.

Auditee Response/Corrective Action Plan:

Contact Person: Marianne Ringel, Director, Division of Provider Services, BMS

Carol Armour of BCFS is aware of the inappropriate billing of services with individual dates of service that the MMIS cannot determine are duplicates. (For example, procedure code Z9417 is a monthly code and should be billed from first to last day of the month.) BMS Provider Relations Unit staff and targeted case management staff at BCFS have discussed the issue of filing these case management claims. The Social Services Program Specialist II (MACWIS Director) of BCFS will be making system changes to MACWIS by September 2003 prior to the

October implementation of BMS' new claims management system MeCMS. The MACWIS system changes will eliminate the possibility of double billing.

The future MaineCare claims management system will perform a review of claims submitted by code, limits file and provider and will prevent this type of inappropriate payment. This system is expected to be operational in October 2003. Since BMS staff are working "double duty" on the new MeCMS system to complete it, it's not possible to address this type of review in the current MMIS claims system. Also, BCFS is currently correcting their billing process to address the errors.

(02-71) Division of Financial Services

Medical Assistance Program (Medicaid)
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 50205ME5028

Finding: Federal funds used for State purposes

The Department of Human Services transferred State expenditures to the Federal Expenditures Fund to create allotment.

State funds were not available to process the payments to Medicaid providers on March 18, 2002. To allow the State share of Medicaid bills to be paid, the Department artificially created General Fund allotment by temporarily transferring $3,440,000 in previously recorded General Fund expenditures to the Federal Expenditure Fund. This was accomplished with a journal voucher entry on March 21, 2002 that was not reversed until March 25, 2002.

The entry temporarily overcharged federal funds and triggered a draw of federal cash. The Department then used the federal cash to make the cycle payments. In effect, the Department temporarily used federal funds for the State's share of program expenses. It should be noted that prior to the end of the fiscal year, the entry was reversed to properly allocate expenditures within the program's accounts.

Title 31 CFR 205.12(a) states:

> *A State will incur an interest liability to the federal government if federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day federal funds are credited to a State account to the day the State pays out federal funds for program purposes.*

Although Medicaid is an interest-neutral program, the federal cash draw used for State purposes could result in the State owing interest to the federal government under the Cash Management Improvement Act (CMIA).

Department of Human Services

Recommendation:

We recommend that the Department of Human Services work with the Bureau of Budget and the Legislature to ensure that adequate resources are made available to fund program expenditures. We also recommend that the Department refrain from preparing journal entries that create State allotment by overcharging federal Medicaid accounts. We further recommend that the Department communicate any deviation from the program's established pattern of federal cash draws to the State's designated CMIA coordinator, so that any interest liability can be determined and reported to the Federal government.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The current budget process does not allow enough flexibility to handle the very unpredictable MaineCare (Medicaid) program costs in a timely manner. The Department is sometimes faced with holding MaineCare obligations at the end of a quarter due to a lack of allotment, and the process to transfer funds legislatively or through the work program process is not responsive enough at the end of a budget period. Given the high dollar figures and thousands of service providers involved, the pressure on the Division of Financial Services to process MaineCare payments on time is enormous. This leads to difficulties in constantly meeting Generally Accepted Accounting Principles. Without some flexibility, or possible a financial reserve for MaineCare, the Department may have no alternative but not pay some state obligations in the very timely manner now experienced by service providers . One approach would be to grant the Commissioner or State Budget Officer the authority to transfer funds between closely related programs, such as: MaineCare's Medical Care – Payments to Providers and Nursing Facilities Accounts; Child Welfare's Foster Care and Child Welfare Accounts, or TANF's Benefit and ASPIRE Accounts.

In regards to the second recommendation, the Department did not draw down federal cash to cover the transfer of costs from the General Fund Account to the Federal Expenditure Fund because of estimated revenue in the Account, thus the cash pool was debited.

Finally, the Department will notify the State's designated CMIA Coordinator of deviations in drawdowns, should any occur.

Department of Human Services

(02-72) Division of Financial Services

Medical Assistance Services
CFDA#: 93.778 **Questioned Costs:** None

Federal Award Number: 50205ME2028

Finding: Unexplained negative cash balance

The Department of Human Services had a negative cash balance in two of the accounts of the Medicaid program in the Federal Expenditures Fund every month during fiscal year 2002. Since the Cash Management Improvement Agreement specifies a four-day average clearance for the Medicaid program, we would expect the federal fund to carry a negative cash balance most of the time. However, the ending balance exceeded the average cycle amount by one and one half times. The average cycle payment for both accounts was $17.8 million. The average ending cash balance was negative $26.8 million. Revenue and expenditure amounts were very similar and did not appear to be a factor in this discrepancy. It appears that the Medicaid program did not draw down sufficient federal revenue in a previous fiscal year.

Recommendation:

We recommend that the Division of Financial Services determine the cause of this discrepancy in order to ensure that the correct amounts of federal cash are drawn.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Pettengill

The Department of Human Services (DHS) concurs with the Department of Audit's finding. An analysis of the draw downs for the Federal Medicaid funds and the SCHIP Block Grant funds has shown that SCHIP funds were not drawn to cover expenditures made for Prospective Payments made to hospitals that pertained to SCHIP eligible recipients. These expenditures were appropriately reported on the quarterly Federal CMS 64 and CMS 21 reports because when these reports are prepared the Prospective Payments made to hospitals during the quarter are allocated to several programs at that time. However, because the Prospective Payment expenditures are recorded at the regular Federal Financial Participation (FFP) rate when they are paid from Appropriation Org 0147, the money to cover the SCHIP share of these expenditures is drawn down into the Federal 0147 account instead of in the Block Grant 0147 account.

A Journal Voucher is prepared quarterly to charge non-Title XIX expenditures, and those expenditures eligible for different FFP rate, into the correct accounts. When the SCHIP program began and included as part of the hospital prospective payments, the spreadsheets used

to prepare the Journal Voucher to transfer these prospective payments were not adjusted to include SCHIP accounts. Since the draw downs of SCHIP funds is based upon the actual expenditures occurring in the SCHIP accounts, and the expenditures for SCHIP prospective payments were not journaled into the SCHIP accounts, the SCHIP Block Grant funds were never drawn down resulting in $8,512,302 of undrawn SCHIP funds and the overdrawing of $7,378,267 of Federal Medicaid funds.

The Department has prepared a Journal Voucher, JV – 10A – 81JP030045, which will be processed on May 27, 2003 to correct this error. In addition, the spreadsheet used to prepare the quarterly journals for the hospital prospective payments have been revised to include SCHIP and other new programs so that these expenditures will be recorded in the proper accounts and the proper amount of Federal and Block Grant funds drawn in the future.

(02-73) Division of Financial Services

Medicaid Cluster
State Children's Heath Insurance Program
CFDA#: 93.775, 93.777, 93.778
93.767

Questioned Costs: None

Federal Award Number: Various

Finding: Estimated grant disbursements reported to the federal government

The Department of Human Services reported estimated rather than actual cash payments as disbursements on the PSC 272-A Federal Cash Transaction Report for the following grant programs: Medicaid, Certification of Health Care Providers and Suppliers, State Medicaid Fraud Control Units, and State Children's Health Insurance. The federal Division of Payment Management expects States to report actual rather than estimated amounts in order to provide for efficient cash management through the Payment Management System.

Personnel within the Department indicated that the federal expenditure reports for these grants are not completed in time to be able to report actual expenditures on the PSC 272-A Report. However, according to a spokesperson from the Federal Division of Payment Management, States should have efficient systems in place to provide for timely and accurate reporting.

The reporting of estimated rather than actual disbursement amounts inhibits the ability of the federal Division of Payment Management to properly manage grant cash.

Recommendation:

We recommend that the Department of Human Services implement procedures to provide for timely and accurate federal financial reporting.

Department of Human Services

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person; John D. Mower

The Department of Human Services' Division of Financial Services is often late in its federal fiscal reporting due to a lack of staff, coupled with ever growing federal programs. The PSC 272A Federal Cash Transaction Report must be completed by the due date or the federal Division of Payment Management will cease disbursing cash to the State for the Department's grant awards. Therefore, to get it in on time, this forces DHS to estimate the disbursed amount for the PSC-272 report to get it in on time. Since this is a cumulative report, adjustments are made on the next quarter's report. The State has hired an accounting firm that will look at the staffing issues and recommend the appropriate levels to ensure that timely reporting can be accomplished.

(02-74) Division of Financial Services

Medical Assistance Program
<u>CFDA#</u>: 93.778 **<u>Questioned Costs</u>:** None

Federal Award Number: 50205ME 2028

<u>Finding</u>: No financial reconciliation; lack of controls to ensure accurate federal financial reporting

The Department of Human Services does not perform a reconciliation between the State's accounting system and the Medical Assistance Program quarterly financial report that is submitted to the Centers for Medicare and Medicaid Services. We identified a variance between the two of $13.4 million for fiscal year 2002. Incorrect reports could result in questioned costs, in allowable expenditures being omitted, or in a material misstatement of the Schedule of Expenditures of Federal Awards.

The quarterly financial reports are submitted without undergoing any formal review and are routinely submitted after the due date. The Medicaid Account Manager prepares the report and also initiates journal vouchers or approves other journal vouchers for millions of dollars. There is no written chart of accounts for the Medicaid program and additionally, the Medicaid appropriation account contains non-Medicaid expenditures. Every new Medicaid waiver approved by the federal oversight agency adds to the complexity of the reporting, thereby increasing the risk of errors or omissions. These issues combine to complicate the reporting process unnecessarily. Federal funding for unbudgeted expenditures is only available after submission of an accurate report. As of the second week of May 2003, the Department had just submitted its December 2002 report, due January 31, 2003, requesting a federal cash reimbursement of approximately $20 million. This lack of federal cash results in the Department

using the financial resources of other grants or other funds for the purposes of the Medical Assistance Program.

We note that subsequent to the period under audit, the cash balance in the Medicaid account was negative $105,000,000 (at March 31, 2003). Federal funds were drawn from the next quarter's grant award on April 1, 2003 to eliminate the cash shortage. The negative balance has an effect not only on the program, by using future cash for current services, but has an effect on the State's overall cash position.

Recommendation:

We recommend that the Department initiate a system to ensure that federal financial reporting is reviewed, reported accurately and filed timely. We further recommend that the Department consider the use of a separate appropriation account for each federal program administered by the Department to make it easier to identify and monitor federal expenditures.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Pettengill

The Department of Human Services (DHS) concurs with the Department of Audit's finding that no reconciliation is done between the quarterly Federal financial reports and the State's accounting system. The Department also concurs with the Department of Audit's assessment that the Federal reports for the Medicaid Program are growing more complex as new Medicaid and non-Medicaid programs are established at both the State and Federal levels. New reporting requirements and additional funding sources increase the time necessary to prepare the report; as modifications to data collection methods, methods of analyses, and expenditure calculations must evolve and grow.

The increase in the amount of time necessary to prepare Federal Reports and the fact that DHS' Division of Financial Services is understaffed combine to make the reconciliations between certified Federal expenditure reports and the State's accounting system nearly impossible. Existing staff currently is unable to submit quarterly reports in a timely fashion without performing such a reconciliation, and with monitoring the current number of accounts that make up the Medicaid program. Adding conducting a reconciliation of Federal reports with the State's accounting system, as well as having to monitor the daily financial activity of an increased number of accounts will more than likely negatively impact the ability of the existing Financial Services Division staff to submit Federal reports in a timely fashion.

This entire issue is being shared with the Department of Administrative and Financial Services and the PricewaterhouseCoopers staff reviewing the critical financial and staffing issues raised by the Audit Department in this and other findings this year.

Department of Human Services

(02-75) Division of Financial Services

Various
CFDA#: Various **Questioned Costs:** $691,657

Federal Award Number: Various

Finding: Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)

The Department of Human Services does not have adequate controls to ensure accurate financial reporting and compliance with prescribed methods to allocate costs. We noted the following regarding the Department's methods to allocate administrative costs through the federally approved cost allocation plan:

1. The Department included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation schedules. As a result, it overcharged the federal government and overstated expenditures of the Social Services Block Grant (CFDA # 93.667) by $691,657 in fiscal year 2002. We question $691,657.

   Duplicate charges were also found to be present in the Child Support Enforcement and the Food Stamp programs. Costs for the duplicate charges identified in the Child Support Enforcement Program are being questioned in (02-49). The duplicate costs identified for the Food Stamp program were pointed out to the Department in time for a correction to be made in the final SF-269 report for federal fiscal year 2002.

2. Rates used to allocate cost pools within a primary allocation schedule were not in accordance with prescribed methods.

   We tested the rates used for five of the twelve cost pools identified on the schedule used to allocate regional administrative costs to various program areas. The results of our testing indicated that none of the rates for the five cost pools had been updated in fiscal year 2002. The error did not appear to be material to any program.

3. The cost allocation plan is inadequately documented at the Department of Human Services.

   The primary allocation schedules used for allocating administrative costs were implemented in 1985. Additional schedules were added through the years, but no significant revisions have been made to reflect the current operating environment of the Department. During our testing, we were not able to get complete documentation of how costs are accumulated and reported. This is due to inadequate documentation within the cost allocation plan and a general lack of understanding of the plan by Department employees.

Department of Human Services

Recommendation:

We recommend that the Department:

1. develop controls to ensure that costs are not reported both as allocated and as direct costs,
2. follow prescribed methods to update allocation factors,
3. update the cost allocation plan to reflect the current operating environment of the Department of Human Services, include a listing of the allocated programs by CFDA number, and
4. document its processes so staff will have guidance to follow.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

1. *A large staff turnover rate, mostly due to retirements within the Division in recent years, and a lack of written procedures have contributed to inaccurate reporting. Specifically, certain costs have been picked up as a direct cost and also as an allocated cost due to new personnel being unfamiliar with the sources for the cost allocation schedules. A procedures manual is being developed and is an on-going process. The Department of Audit, through its thorough auditing of federal programs, has identified this double counting and the Department has corrected it. More internal controls are needed, but without additional personnel this could be difficult. The current Administration has hired an accounting firm to evaluate the Department's fiscal operation and the issue of adequate personnel will be addressed. The State as a whole is also increasing its resources for internal controls.*

2. *The response to recommendation #1 is applicable to this recommendation. Turnover in personnel also has affected the Cost Allocation Plan, a lack of written procedures and new employees' unfamiliarity with the sources of allocation factors.*

3. *The Department has contracted with an outside contractor, who is thoroughly revising the Cost Allocation Plan (CAP). The CAP revision is expected to be complete by June 30, 2004.The contracted personnel will be working with agency personnel in order that they can become familiar with the new plan. The Title IV-E section of the plan has been revised and factors have been updated. An amendment has been sent to the Division of Cost Allocation at the federal Department of Health and Human Services and we are awaiting word on its approval.*

Department of Human Services

(02-76) Division of Financial Services

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Cash management and accounting records inadequate (Prior Year Finding)

The Department of Human Services is not in compliance with the Cash Management Improvement Act (CMIA) Agreement, which establishes provisions for individual programs to draw federal funds, and 31 CFR Part 205.17 (e), which requires a State to maintain records supporting implementation of the CMIA Agreement. Also, the Department's accounting procedures do not comply with 45 CFR Part 92.20, which promulgates standards for financial management systems. The Department has poor accountability over its federal funds because of the non-compliance and lack of cash controls.

We tested nine programs for which compliance with the Agreement was material to the program. Three programs, Medicaid, Food Stamps, and Supplemental Food Program for Women, Infants, and Children, were found to be in compliance. The remaining six were not in compliance, as is described below.

1) The Division of Financial Services of the Department of Human Services did not minimize the time between the payment of funds for program purposes and the transfer of funds from the United States Treasury. According to 31 CFR part 205.7, "A State shall minimize the time elapsing between the transfer of funds from the United States Treasury and the pay out of funds for program purposes by a State, whether the transfer occurs before or after the payout." In addition, funding methods specified in the CMIA Agreement were not followed.

2) The Agreement establishes the methods that must be used to draw federal funds for individual programs.

   Temporary Assistance to Needy Families (TANF) CFDA# 93.558
   The Agreement specifies an average clearance method for TANF payments to clients. The State has established an average clearance pattern of two days. Of the thirteen TANF draws that we reviewed, six were deposited from one to eleven days early and two drawdowns were deposited up to four days late.

   The Agreement specifies a proportionate share method for TANF allocated costs. Funds are to be drawn down once a quarter according to each approved indirect cost allocation plan. The amount of each draw is to be determined by applying an approved direct cost rate to the appropriate direct costs for the quarter. The Department is not in compliance with this method: the Department drew cash for allocated costs bi-weekly in some instances, and quarterly in others. Additionally, the Department did not draw funds for indirect costs by applying an approved indirect cost rate to the appropriate direct costs of the quarter.

Department of Human Services

Child Care Development Block Grant CFDA# 93.575 and 93.596
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. Our testing revealed that two out of three draws selected for testing were deposited three days early.

Foster Care CFDA# 93.658
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. Due to the deficiencies in the design of the accounting structure used for this program, we encountered difficulties in tracing the drawdown amounts to program expenditures. Of the amounts we were able to trace as being correctly drawn down from the Foster Care program, it was determined that funds were drawn down two to eleven days late.

Social Services Block Grant (SSBG) CFDA# 93.667
The Agreement specifies an average clearance method for payments of program costs and a bi-weekly drawdown technique for all administrative costs. The State has established an average clearance pattern of four days for payments for program costs. An average clearance pattern of one day has been determined for administrative drawdowns. SSBG funds are drawn down by the Department of Human Services (DHS) and then posted to three State agencies receiving funds: DHS, the Department of Behavioral and Developmental Services (BDS), and the Department of the Attorney General. We reviewed drawdown and payment activity for these three State agencies. The following deficiencies were noted:

- There were fluctuations in the cash balance of SSBG funds drawn down by DHS for payment to subrecipients, ranging from a high of $438,581 to a negative cash balance of -$714,589.

- SSBG funds were drawn down haphazardly for payments to BDS subrecipients with no consideration given to the timing of deposit and payment activity. The cash balance at BDS ranged from a high of $367,305 to a negative cash balance of $254,458.

Social Security Disability Insurance CFDA# 96.001
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. A review of selected drawdowns revealed that federal funds were drawn down ranging from 3 to 30 days after the check issuance date. An analysis to determine the average daily cash balance for this program was performed. The results identified a negative average daily cash balance for each of four months, indicating that the Department may have used funds from other sources to provide for the immediate cash needs of this program.

Adoption Assistance CFDA# 93.659
The Agreement specifies an average clearance method for all administrative costs. Funds are required to be requested such that they are deposited on the average day of clearance for

these types of payments. Our review of Adoption Assistance draws indicates that the Division did not draw down funds for administrative costs for this grant.

2) Procedures do not allow for the proper accounting of grant funds. Title 45 CFR Part 92.20 (a)(2) states that a State must maintain fiscal control and accounting procedures that are sufficient to "permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

   Temporary Assistance to Needy Families (TANF)
   The Department did not maintain adequate records to support a significant drawdown in the amount of $3,590,817 for TANF grant expenditures. Additionally, the Department could not provide support for the calculation of a fixed amount of cash drawn biweekly for reimbursement of direct administrative payments. Due to the complexities of the accounting system, we were not able to trace the funds to an adequate level of expenditure to determine if the proceeds were spent in compliance with program guidelines.

   It was also noted during our review of TANF that methods used to determine the amount of funds needed for payments associated with Aspire activities are inadequate to ensure compliance with the CMIA. Amounts drawn are determined based on several sources of information: B909 impact reports, MACWIS payment reports, and estimates of encumbered contract balances.

   Child Care Development Block Grant
   During our review of Child Care Development Block Grant draws we discovered that $2,519,965 was drawn as reimbursement for expenditures incurred in a prior fiscal year. The determination that the expenditures had been incurred, but the revenue had not been drawn, did not occur until after the filing of the final quarterly expenditure report for federal fiscal year 2001.

   Foster Care and Adoption Assistance
   Deficiencies in the design of the accounting structure and the methodology used to calculate drawdowns for these two programs were noted. Due to the commingling of Foster Care, Adoption Assistance, and Independent Living program funds with Title IV-E shared funds, excessive cash was drawn down from the Foster Care program to provide for the immediate cash needs of the other programs. Additionally, we identified a calculation error, which caused $1.1 million dollars of excess funds to be drawn from Foster Care. The error was corrected in a subsequent draw.

Recommendation:

We recommend that the Department of Human Services:

1. improve grant accounting systems so that program managers and accountants are able to minimize the number of days between payment and the subsequent drawing down of funds,

2. perform routine cash balance examinations to ensure that State and federal resources are being used efficiently, that no excess cash is on hand, or that no other resources are being used when federal cash is not drawn and deposited promptly,
3. revise accounting practices to provide for the separate accounting of Foster Care, Adoption Assistance, Independent Living, and Title IV-E shared funds, and
4. maintain documentation used to support draws of federal cash.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

For the Department of Human Services' Division of Financial Services to follow the recommendations of this finding, it will require a significant increase in personnel to monitor the flow of cash of each program and be responsible for the increase in separate accounts as recommended. It can be difficult, once funds are drawn down in good faith, to guarantee the amount of time between the draw and the pay date is minimize due to circumstances out side our control. But, with a new CMIA Agreement beginning July 1st 2003 The Division Director will go over the new draw down methodologies with staff as usual, and this particular finding, to find out what issues led to early or late draws as documented. The Division of Financial Services has reduced the number of draw downs not in compliance with the CMIA agreement significantly over the past few years to the point that the agency has almost alleviated them. One other reason for non-compliant draw downs has been to process large Information Technology (IT) invoices when there isn't enough cash in the MFASIS system, and the next scheduled draw down will not be large enough to cover the expense. The Department is working with the State Treasurer's Office to revise the CMIA agreement for fiscal year 2004 to segregate IT costs from other administrative costs, and use the pre-issuance draw down methodology. This will be in the agreement for 2004. When there is a draw down exception, it is reported annually to the CMIA Coordinator at the State Treasurer's Office.

State of Maine
Department of Labor

Summary of Federal Findings

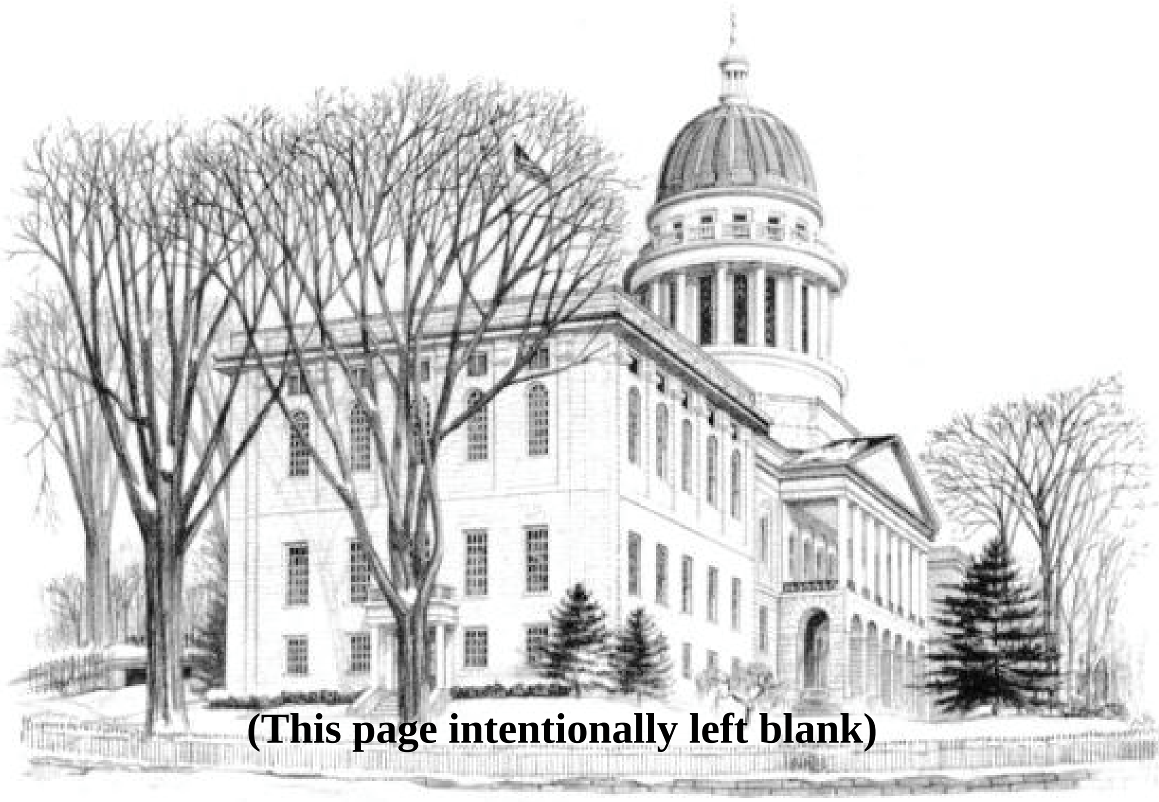
The most serious deficiency that we found at the Department of Labor was the lack of appropriate segregation of duties in the Vocational Rehabilitation Grants to States program. Rehabilitation counselors employed by the Department interview applicants, determine eligibility for the program, establish individualized plans for employment, authorize expenditures and approve payments. They also determine when the applicant's participation in the program should terminate. The individualized plan should be relied upon as a control, because expenditures are to be made only in accordance with the plan, but cannot be relied upon when the same individuals who determine a participant's eligibility also prepare the plan. For the most part, the rehabilitation counselors perform these conflicting duties without supervision. We consider this a weakness in control that could have a material effect upon the program, as approximately $6.9 million of the program's $14.6 million in expenditures were processed this way.

Two other findings were written for this program, one for incorrect financial reporting to the federal government and one for the Department holding excess federal cash.

Three other findings, concerning various federal programs, address cash management. Federal funds were not drawn in accordance with the Cash Management Improvement Act Agreement. The Department held excess federal cash, and cash draws for various programs could not be related to specific costs or were not consistent with program expenditures.

Another major deficiency was found in the Department's internal cost accounting system, DOLARS. The data is untimely. More importantly, as we previously reported, the Department does not reconcile this system, which is relied upon for data that is submitted to the federal government, with the official accounting system of the State of Maine. However, we recognize that the Department has made efforts to reconcile the systems, and has made progress toward that goal. The data that the system provides is also untimely.

Finally, we found that for the Workforce Investment Act Cluster, the Department lacks adequate controls over the computer system that is used to determine eligibility, and lacks an adequate system of monitoring subrecipients of the program.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Department of Labor

(02-77) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Costs:** None

Federal Award Number: H126A010026F

Finding: Lack of segregation of duties; inadequate oversight (Prior Year Finding)

The Department of Labor does not have adequate safeguards in place to segregate duties or to provide adequate supervision and review for the Vocational Rehabilitation Grants to States program. The Department relies on its rehabilitation counselors to interview applicants, determine program eligibility, establish individualized plans for employment, authorize expenditures and initiate and approve payments.

Title 34 CFR 361.42 requires the State plan to assure that determination for program eligibility is based only on determination that an applicant has a physical or mental impairment and that the impairment constitutes or results in a substantial impairment to employment. Also, 29 USC 722 requires that there be an individualized plan for employment (IPE) for each program participant. Among other things, the IPE includes a description of the services required, the participation, if any, of the applicant in paying for the costs of the plan, and the responsibilities of other parties as a result of the applicant having applied for other comparable services when required. The IPE is relied upon to function as a component of the control system over expenditures made on behalf of the clients of the program.

The Department relies on the rehabilitation counselors to obtain independent verification of the qualifying disability, to prepare the IPEs and to document consideration of comparable services. The counselors also determine when the applicant's participation in the program should terminate. In most cases, the Department does not review the work done by the counselors to ensure that all requirements have been satisfied. Supervisory approval of the counselor's decisions is not generally required. The counselor has almost complete discretion over the services agreed to for each program applicant.

The Department of Labor's computer system allows rehabilitation counselors to initiate, authorize and approve payments. The payments are batch-processed into the State's accounting system via an interface that receives no additional substantive approval. The system does not limit the expenditure amount, require a second approval or restrict the type of access.

Approximately $6.9 million of the program's $14.6 million of expenditures were processed in this manner.

Recommendation:

We recommend that the Maine Department of Labor establish procedures to ensure independent approvals of expenditures and implement computer controls that would limit the ability of a

system user to initiate, authorize and approve the payment process. We further recommend that it periodically review the work done by the rehabilitation counselors to ensure compliance with program and control system requirements.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: William Whitley - 624-5967

The Bureau of Rehabilitation Services is in the process of establishing procedures to ensure segregation of program duties, involving approval of expenditures and computer controls to limit the ability of system user to initiate, authorize and approve the payment process. The Department of Labor Office of Information Processing has begun work on the rewrite of the Rehabilitation System (ORSIS). Work on Phase I that includes systems analysis, data modeling, prototyping, requirements analysis and conceptual design has begun. The rewrite will improve the system to provide a fully accessible, intuitive, well-documented system that minimizes replications. It is anticipated that the new system will be fully operational by the end of the SFY 2004.

(02-78) Bureau of Employment Services

Employment Services
<u>CFDA#</u>: 17.207 **<u>Questioned Costs</u>:** None

Federal Award Number: ES-10676

<u>Finding</u>: Insufficient controls over set-aside expenditures

The Maine Department of Labor did not monitor expenditures dedicated to the Wagner-Peyser set-aside. The Department is required to reserve ten percent of the State's allotment to provide services and activities authorized by 29 USC 49f(b), which include:

1. performance incentives for public employment service offices and programs,
2. services for groups with special needs, and
3. extra costs of exemplary models for delivering services.

The Department has no procedures in place to ensure that all charges made to the reserve are appropriate to those services and activities. We found that one Career Center employee inappropriately charged his time to set-aside activities for a period of seven months.

It is noted that sufficient funds were appropriately expended on set-aside activities to comply with the reserve requirement.

Recommendation:

We recommend that the Department of Labor ensure that only appropriate charges are made to the Wagner-Peyser set-aside. We recommend that the Department monitor set-aside expenditures to ensure that they meet the required ten percent threshold.

Auditee Response/Corrective Action Plan:

Contact Person: Andrew Drouin - 287-6493

As outlined in the Bureau of Employment Services' approved State Plan, the 10% Wagner-Peyser set-aside funds are designated to provide services in rural communities to reduce the geographical gaps between offices. We are now utilizing the State TAMS system to control staff time charges which will only allow staff to charge to funding codes with prior approval. We feel that this new system will provide the controls we need to insure that all expenditures are in line with the approved plan.

(02-79) Office of Administrative Services

Unemployment Insurance
CFDA#: 17.225 **Questioned Costs:** None

Federal Award Number: UI-10939-00-55

Finding: Funds drawn on the federal Unemployment Compensation Trust Fund were not in compliance with cash management requirements

The Department of Labor did not draw funds from the federal Unemployment Trust Fund (UTF) in accordance with the Cash Management Improvement Act agreement. We noted the following instances of non-compliance:

1. Department personnel used the net amount of unemployment benefits, rather than the gross amount of benefits, when computing the amount of funds to be drawn from the UTF. The net amount of benefit checks represents the claimant's gross benefit amount less deductions for federal and state income taxes and child support payments.

2. The Department did not draw down funds for payment of federal unemployment benefits using the check clearance pattern, as required by the CMIA.

By not correctly calculating the amount to be drawn down from the UTF, the benefit demand deposit account was overdrawn on 43 separate dates during the 2002 fiscal year. The overdraft amounts ranged from $1,000 to $700,000.

Department of Labor

To prevent bank overdrafts, Department personnel started monitoring, on a daily basis, the cash balance in the bank, and drawing down cash as needed. However, this procedure does not comply with CMIA, as the Department was not using the estimated clearance pattern for their drawdowns.

Subsequent to the date of the audit, the Department:

1. changed the method used to determine the department's cash needs,
2. made draws made based on the use of the estimated clearance pattern, and
3. implemented use of estimated revenue (per approval of the Controller's office) in order that transactions may be recorded on the State's accounting system before drawing cash.

Recommendation:

We recommend that the Department of Labor continue to monitor the benefit demand deposit account to ensure that further bank overdrafts do not occur. We further recommend that the department use the draw method as required by the CMIA agreement.

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey
Office of Administrative Services 287-1276

The Maine Department of Labor, Office of Administrative Services reviewed the draw down pattern used, and identified and reported to the auditor that we were not including child support deductions, federal/state withholding tax deductions, or offsets in our daily figures and that the federal Accounts had not been drawn down using the estimated clearance pattern.
As stated above in the audit finding, subsequent to the date of the audit, we implemented the following changes:

(1) The method used to determine the department's cash needs (estimated clearance pattern spreadsheet) was changed.
(2) All draw downs are made based on the use of the estimated clearance pattern.
(3) Estimated revenue (per approval of the Controller's office) is used in order that transactions may be recorded on MFASIS before drawing cash.

These changes should eliminate this finding in subsequent audits.

Department of Labor

(02-80) Office of Administrative Services

Unemployment Insurance
CFDA#: 17.225 **Questioned Costs:** None

Federal Award Number: UI-10939-00-55

Finding: Untimely account reconciliation of accounting systems; inaccurate federal financial reports

As of August 28, 2002, the Department of Labor had not reconciled its internal accounting and reporting system (DOLARS) to the State's official accounting records for the Trade Readjustment Assistance (TRA) Program for the two previous fiscal years. During February 2003, the reconciliation was completed. Federal receipts had been reported as $194,186 lower than actual, and expenditures as $789,445 higher than actual, as follows:

	Prior to reconciliation	After reconciliation	Difference
Federal receipts	$2,601,503	$2,795,671	$-194,168
Expenditures	$3,585,116	$2,795,671	$ 789,445

The reason for the differences is that certain revenue and expenditure transactions had been charged to an incorrect fiscal year.

The Department is required to report federal expenditures to the U.S. Department of Labor on the *Financial Status Report* (SF-269). The source of the data for the SF-269 report is the DOLARS GA-17a report. Federal expenditures of $3,000,000 for the Trade Readjustment Assistance program were reported on the SF-269 report for the period January 1, 2002 through March 31, 2002 (submitted August 28, 2002). Actual federal expenditures should have been $2,795,671. As a result, the total TRA expenditures that were reported were overstated by $204,329. In addition, the total expenditures recorded on the final SF-269 report for the 2000 federal grant year were overstated by $41,637.

In March 2003, the Department submitted amended SF-269 reports, with the correct amount of federal expenditures, for the above periods.

Recommendation:

We recommend that the Department reconcile the accounts within DOLARS to the State's accounting records on a monthly basis. These reconciliation procedures should be performed before any federal financial reports are prepared.

Department of Labor

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey
Office of Administrative Services -287-1276

The Office of Administrative Services upon recognition of the error, immediately concentrated efforts in this area, reconciled all prior years for the TRA grant and has submitted final reports for closed grants. All subsequent periods have been or are reconciled on a monthly basis to the State MFASIS system, the Trust Funds general ledger and the internal cost accounting system.

(02-81) Bureau of Employment Services

Workforce Investment Act Cluster
CFDA#: 17.258, 17.259, 17.260 **Questioned Costs:** None

Federal Award Number: AA-11255-01-50
EM-11650-01-60

Finding: Lack of adequate computer controls

The Maine Department of Labor, Bureau of Employment Services does not have adequate controls in place for the One Stop Operating System computer system. This system is used to make eligibility determinations for clients of this cluster.

We noted the following control weaknesses:

1. Information technology personnel are able to make changes to master files, production programs and live data files. Adequate controls are not in place to ensure that changes of this type are authorized and appropriate.

2. Access is not limited to the personnel who require it for their job function.

3. Passwords are used to limit access to the program. However, procedures are not in place to ensure that passwords are confidential and unique, changed at regular intervals, and canceled upon termination of the employee.

4. Procedures are not in place to ensure that unauthorized changes to the program are not made.

5. Procedures are not in place to prohibit test versions of programs from being run on production data and to control the test environment.

6. Procedures do not exist that would allow information technology personnel to determine if the data is properly authorized in instances where they were required to initiate the input of data.

7. There is no "call-back" to a vendor after the vendor initiates a request to gain remote access to the State's computer system.

8. Disaster contingency plans have not been tested.

Recommendation:

We recommend that the Department of Labor plan and implement a comprehensive control system for the One Stop Operating System computer system.

Auditee Response/Corrective Action Plan:

Contact Person: Arthur Henry, Office of Information Processing - 287-9133

The State of Maine Information Services Policy Board (ISPB) adopted a new Information Technology Security Policy on December 19, 2002. Among other enhancements, that policy also addresses, in a detailed manner, corrective measures for the weaknesses spelled out in the finding "Lack of adequate computer controls." The Department of Labor has committed to embrace and support this new State of Maine Security Policy. Our plans are to adhere to each of the nine security areas which include technology security, organizational security, asset classification and control, personnel security, physical and environmental security, communications and operations management, access control, systems development and maintenance controls, and disaster recovery and business continuity guidelines. We will also periodically review our compliance with these policies and guidelines.

The Department plans on naming a security officer who will have the authority and responsibility to develop the computer security project plan and carry out that plan. The intent of the project plan will be to be in full compliance with the Maine IT Security Policy and follow the security guidelines by July of 2004. The project plan will have deliverables for each of the security areas on a scheduled basis between July of 2003 and July of 2004. Following is a list of the weaknesses spelled out in the finding and references to where the new security policy addresses those weaknesses.

1. *Information technology personnel are able to make changes to master files, production programs and live data files. Adequate controls are not in place to ensure that changes of this type are authorized and appropriate.*
   - *This item is addressed in sections 8,9 and 10 of the security policy.*

2. *Access is not limited to the personnel who require it for their job function.*
   - *This item is addressed in sections 5,7,and 9 of the security policy.*

3. *Passwords are used to limit access to the program. However, procedures are not in place to ensure that passwords are confidential and unique, changed at regular intervals, and canceled upon termination of the employee.*
   - *This item is addressed in sections 8 and 9 of the security policy.*

4. *Procedures are not in place to ensure that unauthorized changes to the program are not made.*
   - *This item is addressed in sections 8,9,and 10 of the security policy.*

5. *Procedures are not in place to prohibit test versions of programs from being run on production data and to control the test environment.*
   - *This item is addressed in sections 8 and 10 of the security policy.*

6. *Procedures do not exist that would allow information technology personnel to determine if the data is properly authorized in instances where they were required to initiate the input of data.*
   - *This item is addressed in sections 6, 8 and 10 of the security policy.*

7. *There is no "call back" to a vendor after the vendor initiates a request to gain remote access to the State's computer system.*
   - *This item is addressed in sections 4,8 and 9 of the security policy.*

8. *Disaster contingency plans have not been tested.*
   - *This item is addressed in 8 and 11 of the security policy and our new Enterprise Computing strategy that we will be beginning to install in 2003-2004.*

At the present time, we plan to address the mentioned weaknesses in the manner described above. If the audit authorities want us to prioritize any specific items or want reports on our progress to meet the stated goals please let us know and we will work to accommodate those requests.

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(02-82) Bureau of Employment Services

Workforce Investment Act Cluster
<u>CFDA#</u>: 17.258, 17.259, 17.260 **<u>Questioned Costs</u>:** None

Federal Award Number: AA-11255-01-50
EM-11650-01-60

<u>Finding</u>: Lack of adequate subrecipient monitoring

The Bureau of Employment Services of the Department of Labor does not monitor subrecipients' use of funds on an ongoing basis. The Department provides funding to the subrecipients but does not currently conduct site visits or otherwise obtain assurance that the funds are expended properly. The Department relies on audits of the subrecipients to ensure compliance. However, because the audits are after the fact, they are not sufficient to prevent or detect noncompliance on a timely basis. The Department has initiated site visits for National Emergency Grant funds and intends to implement them for the remaining funding areas.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart D (400) d (3), requires that a pass-through entity monitor the activities of subrecipients. Monitoring should be performed as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of the contracts and grant agreements, and that performance goals are achieved. The Bureau of Employment Services provided approximately $11,099,848 to subrecipients during fiscal year 2002.

<u>Recommendation</u>:

We recommend that the Bureau of Employment Services implement a subrecipient monitoring plan to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of the contracts and grant agreements and that performance goals are achieved.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Andrew Drouin - 624-6493

The BES is in the process of developing a <u>Program and Financial Monitoring Manual</u>, which contains monitoring procedures, policies, reporting formats, and the on-site monitoring tools for WIA, TAA, Wagner-Peyser, and Migrant and Seasonal Farmworkers programs. The schedule for implementation is below:

- *The manual with the policy and procedures will be ready in draft form by May 21st.*

- *By May 23rd, the draft manual will be circulated in house for comment and a meeting held, if necessary.*
- *By May 30th the monitoring manual (program and fiscal) will be sent to Local Boards.*
- *The manual will be completed and approved for implementation by June 13th.*

The manual contains the monitoring schedule and describes the teams that will conduct the on-site monitoring. One Local Area per quarter will be monitored. This includes the Local Area Central office and selected individual CareerCenters within that jurisdiction. Monitoring of all four Local Areas will be completed by June 30, 2004.

(02-83) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Costs:** None

Federal Award Number: H126A020026F

Finding: Controls did not prevent excess federal cash on hand (Prior Year Finding)

The Maine Department of Labor did not comply with the Cash Management Improvement Act (CMIA) agreement between the Office of Treasurer of State and the U.S. Department of Treasury. Neither did the Department comply with the Office of Management and Budget *Uniform Administrative Requirements for Grants and Cooperative Agreements to States and Local Governments* (Common Rule). The Agreement requires that 1/26th of personal services funds be drawn on the average day of payroll clearance and that cash on hand for non-personal services expenditures not exceed two days. The Department did not follow the approved methods for the Vocational Rehabilitation Grants to States program, but instead operated on a reimbursement basis by using accumulated program income, approximately $1,000,000. The Common Rule, Section 21(f)(2) requires that program income be disbursed prior to requesting additional cash payments. Department personnel were not aware of this requirement. For the one quarter tested, the Department had 26.5 days cash on hand.

Recommendation:

We recommend that the Department expend the cash resulting from program income prior to requesting additional federal funds. We further recommend that the Department establish internal control procedures to ensure compliance with the requirements of both the CMIA and the Common Rule. Additionally, we recommend that the Department provide the program income account coding to the Office of the State Treasurer for inclusion in the CMIA interest liability calculation.

Auditee Response/Corrective Action Plan:

Contact Person: William Whitley - 624-5967

There was a misunderstanding in the interpretation of Cash Management Improvement Act and the Common Rule. With the clarification of these rules, the Bureau of Rehabilitation Services will make every effort to order cash per the stated methods prescribed in the CMIA agreement and will disburse any program income prior to requesting additional cash payments.

(02-84) Bureau of Rehabilitation Services

Rehabilitation Services - Vocational Rehabilitation Grants to States
CFDA#: 84.126 **Questioned Costs:** None

Federal Award Number: H126A010026F

Finding: Incorrect financial reporting

The Department of Labor is not correctly reporting program income on the SF-269 reports for the Vocational Rehabilitation Grants to States program. Department personnel report the entire program income amount in the disbursed category rather than separately reporting disbursed and undisbursed amounts on their respective lines in accordance with federal guidance. Substantially all of the current program income was not disbursed. Additionally, explanatory comments for program income expenditures were not included as required.

Recommendation:

We recommend that the Maine Department of Labor properly report program income that was disbursed and not disbursed program separately, as well as include the required explanatory comments.

Auditee Response/Corrective Action Plan:

Contact Person: William Whitley - 624-5967

Procedures have been put in place to ensure that all program income be correctly reported as disbursed and undisbursed.

Department of Labor

(02-85) Office of Administrative Services

Employment Services and WIA Clusters; Unemployment Insurance (Administrative Portion)
<u>CFDA#</u>: Various **<u>Questioned Costs</u>:** None

Federal Award Number: Various

<u>Finding</u>: Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)

The Maine Department of Labor did not draw federal funds in accordance with the terms of the Cash Management Improvement Act (CMIA). In fiscal year 2002, Unemployment Insurance and the Employment Service Grant were included in the CMIA agreement between the State of Maine and the U.S. Department of the Treasury. We found the following instances of non-compliance with the terms of the agreement:

1. Draws for personal services costs
   The CMIA agreement specifies that "The State shall draw down bi-weekly 1/26th of the administrative cost for deposit on the average day of clearance." The Department did not prorate the draws that were made to fund personal services costs as required. For Employment Service, only 13 draws could be specifically identified with by-weekly payroll costs over the course of the year. For eight of those 13 draws, six days elapsed between the draw date and the average day of clearance. For Unemployment Insurance, only 19 draws could be specifically identified with payroll costs. Total personal services expenditures were $2.94 million for Employment Service and $11.16 million for Unemployment Insurance.

2. Draws for non-personal services costs
   The CMIA agreement specifies pre-issuance draws for these costs. The agreement further specifies that pre-issuance funding for major programs be requested for deposit "in a State account not more than two days prior to the day the State makes a disbursement." For both programs covered by the CMIA agreement, the Department timed draws based on a monthly review of available cash balances as indicated by the Department's internal cost accounting system, not on actual expenditures as required by the CMIA agreement.

The Employment Service grant will not be a major federal assistance program under CMIA after June 30, 2002. However, the CMIA requires that program administrators must limit and time cash advances to coincide with requirements whether a program is major or non-major.

All other programs included in this finding qualify as non-major federal assistance programs under CMIA and must conform to Subpart B of 31 CFR 205. For such programs, "Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual, immediate cash requirements of the State in carrying out" program responsibilities. The Department timed draws based on available balances, not on immediate cash requirements, for the following programs:

- Disabled Veterans' Outreach Program (2002 expenditures: $394,347)
- Local Veterans' Employment Representative Program (2002 expenditures: $473,952)
- The portion of the Workforce Investment Act Adult, Youth, and Dislocated Worker grants directly administered by the State (2002 expenditures: $2,135,432)

We noted that the Department's grant accounting system can impede cash management by not providing timely program obligation and availability data. Grant status reports are only generated monthly.

<u>Recommendation</u>:

We recommend that the Department of Labor limit and time draws of federal cash in accordance with the CMIA. We also recommend that the Department's grant accounting system be modified to provide timely grant status reports.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Rose M. Bailey
Administrative Services -287-1276

The Maine Department of Labor Office of Administrative Services has established estimated revenue for State Fiscal Year 2003, which subsequently removed the previous barriers to compliance with the CMIA agreement. Pre-issuance funding has been replaced with the Average Clearance Pattern in CMIA agreements. Payroll is now drawn down on Wednesday, the payroll paid date, to be received in the bank on Thursday (average day of clearance). With the TAMS (Time and Attendance Management System) warehouse available to us, our goal is to use this information, feed it into our internal accounting system and send the information back to MFASIS in the report orgs that reflect the funding sources. This should improve the tracking of grants in future audits.

Non-personal services are coded using a crosswalk that reflects the appropriate State accounting system report org for each funding source. Drawdowns for these expenses are reviewed using queries from the State's Financial Management System (Financial Warehouse) and the in-house cost accounting reports.

Department of Labor

(02-86) Office of Administrative Services

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Accounting systems not reconciled (Prior Year Finding)

The Maine Department of Labor does not reconcile, on a timely basis, internal accounting records at the program level with the State's official accounting records. Although the Department uses the official State accounting system to record transactions at the appropriation level, the agency chooses to maintain its grant accounting on an independent system. As operated by the Department, neither system provides a complete and detailed record of grant transactions. The State's system accurately tracks timing of expenditures and cash receipts, but does not reliably record the federal grants to which these transactions apply. The Department's independent system tracks individual grant expenditures, but users cannot discern detailed transaction timing. In addition, the independent system does not provide timely and independently verifiable data to State agencies outside the Department of Labor.

The Department periodically reconciles the State and agency accounting systems. The Department received 28 federal grants in fiscal year 2002, for a total of $74.9 million in federal expenditures. In fiscal year 2002, the Department could reconcile the systems at the agency level to within $60,000, an insignificant variance. However, the systems cannot be reconciled at the individual grant level because the Department's coding to the State's accounting system does not allow retrieval of detailed information by grant. The insufficient reconciliation affects internal control over compliance for the following two major program clusters:

Cluster	CFDA	FY 2002 Expenditures
Employment Service	17.207, 17.801, 17.804	$ 6,775,405
Workforce Investment Act	17.258, 17.259, 17.260	$13,235,280

According to 29 CFR 97.20, Standards for Financial Management Systems:

> A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State...must be sufficient to (1) permit preparation of reports required; and (2) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Title 5 M.R.S.A. 1541 establishes the State's laws and procedures for accounting for its own funds. The statute authorizes the Bureau of Accounts and Control to "maintain an official system of general accounts, unless otherwise provided by law, embracing all the financial transactions of the State Government." Any compliant grant accounting system should reconcile to the State's accounting system at the program level.

Recommendation:

In order to ensure compliance with federal regulations, accurate financial reporting, and effective management review of program transactions, we recommend that the Department of Labor reconcile transactions recorded on State and agency accounting systems at the federal program level. We recommend that the reconciliation be performed on a monthly basis and before the preparation of any federal or State financial reports.

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey
Office of Administrative Services 287-1276

Staffing shortages and turnover have been a challenge with respect to the corrective actions previously planned. We have recently created a Process Flow Chart, rewritten the reconciliation process, and designed other reconciliation tools with ease of use as one of the primary factors. This along with stability in staffing will allow for significant improvement in our ability to manage corrections, journal entry adjustments and identify reoccurring errors. In an effort to accelerate the progress in reconciling accounts, the Department is currently contracting with temporary services for accounting personnel skilled in the reconciliation area. Also, during the course of this fiscal year, we will review the feasibility of the recommendations of the State Audit Department with regard to reconciling the State system MFASIS, with the Department of Labor internal cost accounting system DOLARS on a federal program level.

(02-87) Office of Administrative Services

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Program drawdowns are not consistent with program expenditures

At the grant level, we found only limited correlation between cash drawn as identified on the U.S. Department of Health and Human Service's Payment Management System (PMS) and expenditures as identified on the Maine Department of Labor's grant accounting system. We found that expenditure reporting was materially accurate. However, we could not positively identify all draws of federal cash to specific programs. The table below illustrates the discrepancy between draws per the PMS 272 E report and expenditures per the Department's records for a representative Labor program, the Employment Service grant (CFDA# 17.207)

Department of Labor

Monthly Comparison of Draws to Expenditures, CFDA 17.207, SFY 2002

	Draws	Expenditures	Difference		Draws	Expenditures	Difference
July	$ 758,100	$ 527,637	$ 230,463	Jan	$ 800,004	$ 419,288	$ 380,716
Aug	$ 710,000	$ 502,949	$ 207,051	Feb	$ 736,180	$ 383,004	$ 353,176
Sept	$ 780,436	$ 485,254	$ 295,182	Mar	$ 302,580	$ 578,173	$(275,593)
Oct	$ 524,726	$ 455,342	$ 69,384	April	$ 373,904	$ 405,799	$ (31,895)
Nov	$ 630,000	$ 389,851	$ 240,149	May	$ 190,120	$ 564,003	$(373,883)
Dec	$1,009,060	$ 922,428	$ 86,633	June	$ 52,475	$ 224,401	$(171,926)
				In-Kind*	0	$ 48,978	
				Total	$6,867,585	$5,907,106	$ 960,478

*In-Kind is federal in-kind postage contribution

We noted similar discrepancies for Disabled Veterans' Outreach Program (17.801), Local Veterans' Employment Representative (17.804), and the Workforce Investment Act programs (17.258, 17.259, and 17.260).

<u>Recommendation</u>:

We recommend that the Department coordinate the timing and amount of draws of federal cash with program needs. Implementation of this recommendation should be evident in future draws recorded in the Payment Management System.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Rose M. Bailey
Office of Administrative Services -287-1276

The Office of Administrative Services took steps during State Fiscal Year 2003 (July 1, 2002 through June 30, 2003) to discontinue pre-issuance funding on all of our Federal Grants. We currently use the Average Clearance Pattern for non-personal services and prorated draw downs for Payroll. This will eliminate or diminish the possibility of excess cash on hand in the future. The Office of Administrative Services has worked diligently to develop the tools necessary, increase staff training, and create changes in our State Account Code Structure that would allow for better overall cash management.

Department of Labor

(02-88) Office of Administrative Services

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Federal grant program activity and status information not timely

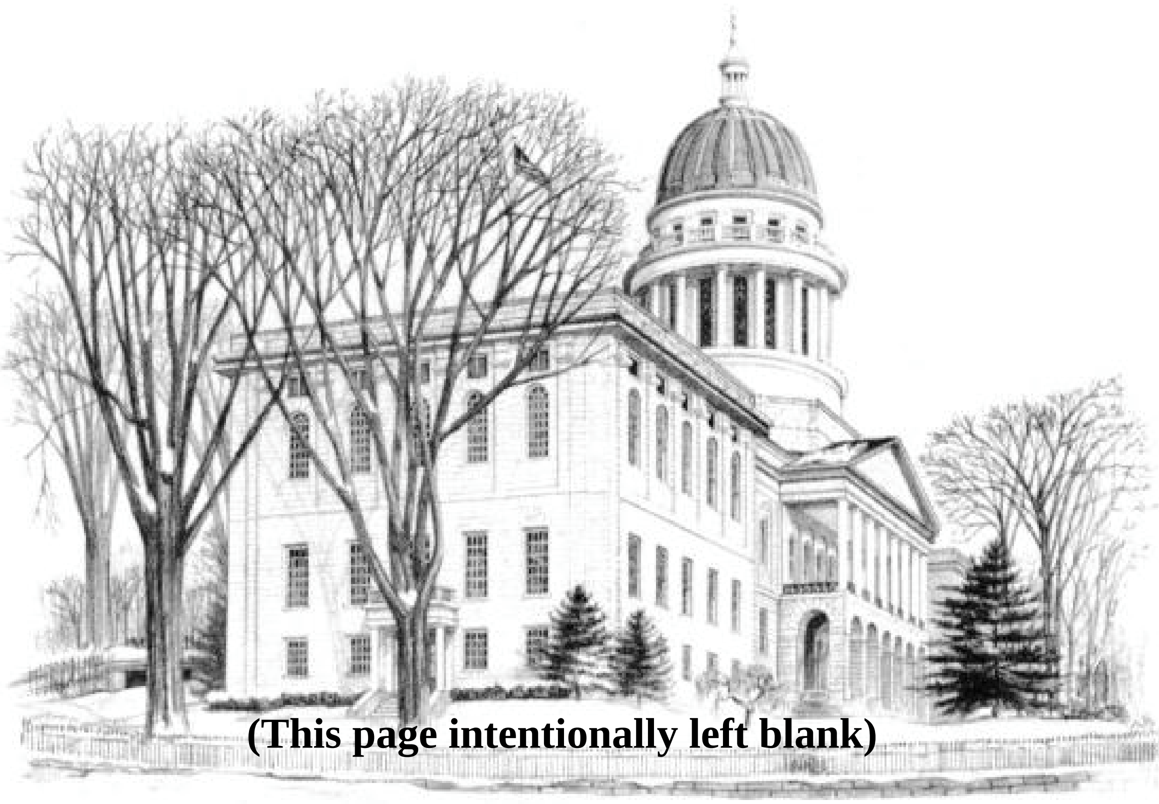
The Maine Department of Labor's cost accounting system does not provide timely information on program status. The Department of Labor Accounting and Reporting System (DOLARS), the only system that tracks the Department's federal grant activity at the program level, provides no transaction timing detail closer than to the end of the month in which a transaction occurred. In addition, DOLARS reports are not available to staff until several weeks after the end of the applicable month. Although the State's accounting system, MFASIS, accurately reports the Department's federal expenditures at the agency level, it does not provide detailed accounting at the federal program level for the programs managed by the Department of Labor.

Recommendation:

We recommend that the Department of Labor revise its accounting system to provide detailed information on transaction timing. We recommend that the system provide current information on specific program activities and status.

Auditee Response/Corrective Action Plan:

The Maine Department of Labor Office of Administrative Services and the Office of Information Processing are currently engaging in conversations with regard to a redesign of our current system. This is necessary to give our program managers sufficient information to make well-informed decisions concerning their programs in these times of funding shortfalls. As stated in the audit finding above, we cannot rely on the Maine Financial and Administrative Statewide Information System (MFASIS), as it currently does not provide detailed accounting at the federal program level for MDOL managed programs that can be viewed on a daily basis for management purposes.



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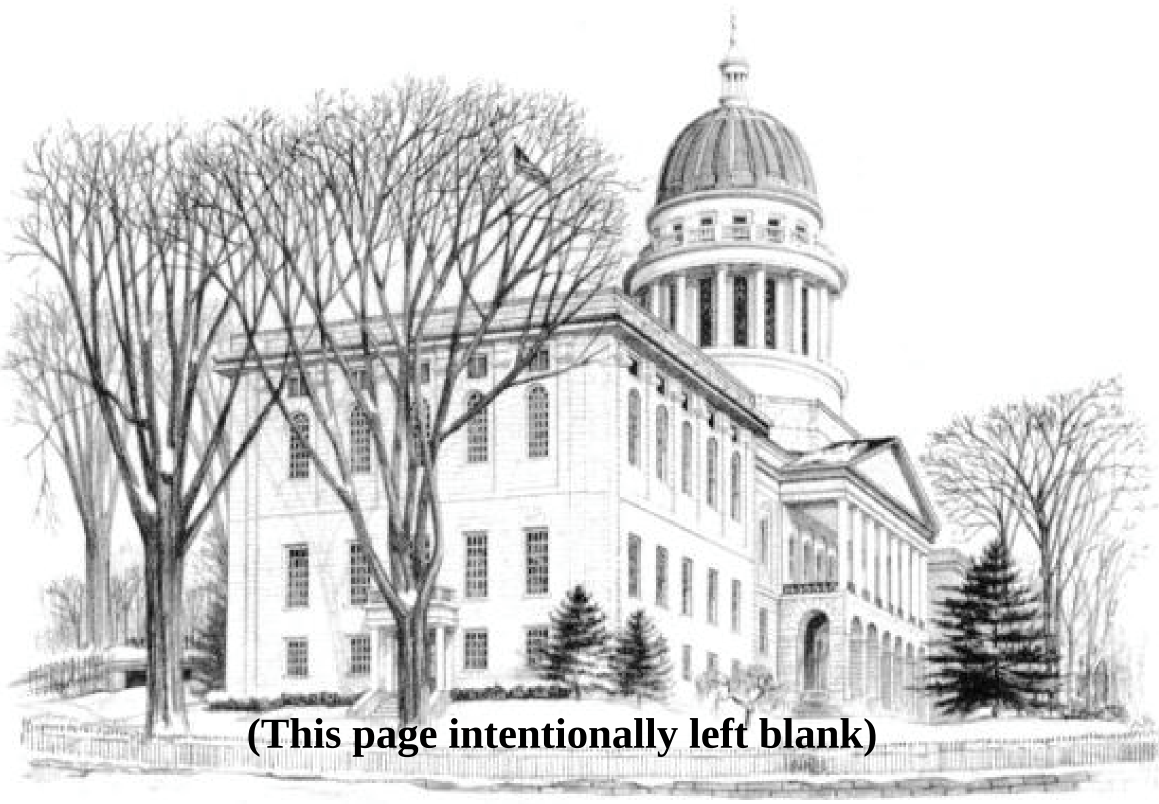
State of Maine
Department of Transportation

Summary of Federal Findings

We found deficiencies with the Department of Transportation's documentation of compliance with federal regulations by the contractors to whom it provides funds from the Highway Planning and Construction program. The Department used incorrect references in contracts, and did not maintain documentation regarding suspension and debarment or the payment of prevailing wages.



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Department of Transportation

(02-89) Bureau of Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Federal Award Number: Various

Finding: Inadequate oversight of Locally Administered Projects (Prior Year Finding)

The Maine Department of Transportation does not have adequate internal controls in place to ensure that Locally Administered Projects are administered in accordance with Federal Highway Administration (FHWA) or local agreements.

Title 23 USC 106 allows the State of Maine to assume responsibilities for design, specifications, estimates, right-of-way certification statements, contract awards, and inspection and final acceptance of the vast majority of federal-aid projects.

We note the following regarding the administration and oversight of locally administered projects:

1. Local project agreements referred to audit requirements being met "in accordance with the provisions of Office of Management and Budget (OMB) Circular A-128." This circular is no longer in effect. The agreements should have referred to OMB Circular A-133.

2. Two of the five local project agreements that were tested did not reference the correct federal participation rate. However, payments were correctly made based on the FHWA participation rate.

3. Payment made on one project did not deduct the 2½ percent retainage ($13,608) as specified on the invoice.

Recommendation:

We recommend that the Maine Department of Transportation:

1. update local project agreements to refer to A-133 instead of A-128,
2. develop a written policy directing the review of local project contracts for correctness with respect to federal aid agreements, and
3. include in local project contracts procedures for reimbursing the Department for project charges that are the responsibility of the municipality.

Department of Transportation

Auditee Response/Corrective Action Plan:

Contact Person: Bruce Carter - 624-3430

We concur with the finding. In the past year, the recently established position of Departmental Local Administered Projects (LAP) Coordinator has published an LAP manual and provided training in MDOT and FHWA procedures to over 200 consultants and municipalities. Part of the procedures for an LAP project require the use of the MDOT standard construction specs, something that was not done in the past. This will ensure technical consistency with MDOT work and incorporate federal provisions.

The corrective action plan will be in place by June 30, 2003.

(02-90) Bureau of Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Federal Award Number: Various

Finding: Internal controls regarding Davis-Bacon Act not followed (Prior Year Finding)

The Department of Transportation did not always follow established internal control procedures related to compliance with the federal Davis-Bacon Act. In order to ensure contractor compliance with Davis-Bacon prevailing wage provisions, the Department requires construction managers to maintain a contract file with copies of certified payroll reports from contractors and subcontractors. The construction manager is required to review and sign the payroll report to indicate his or her agreement that the prevailing pay rates have been used. Additionally, the Department requires the construction manager to conduct monthly payroll interviews and to document payroll interviews in a project diary.

We examined contract files for five completed projects for project diaries, contract books, and required certified payrolls and tested that the twenty-four haphazardly selected employees were paid the prevailing wages. Although all twenty-four employees were paid the prevailing wage, contract files were incomplete. Two of the five completed projects did not have certified payrolls and one of the five completed projects did not have a contract book. All five completed projects did contain the project diary, but none of the five project diaries documented that monthly payroll interviews were conducted as required. Only three of the five completed projects contained certified payrolls. For two of the three completed projects, the construction manager did not sign the certified payrolls.

Recommendation:

We recommend that the Department of Transportation require that established internal control procedures be followed. Certified payroll reports should be obtained from all contractors. Payroll reports should be reviewed for use of prevailing wage rates, and reports should be signed to indicate agreement that appropriate pay rates were used. Payroll interviews should be documented in project diaries.

Auditee Response/Corrective Action Plan:

Contact Person: Bruce Carter - 624-3430

We concur with the finding. A Wage Rate Compliance Officer was designated for the Department approximately a year ago. This is a collateral duty. Steps have been taken for the employee to be trained, manuals have been provided and she will take a more active role this construction season in verifying Davis-Bacon compliance.

The corrective action plan will be in place for the construction season of 2003.

(02-91) Bureau of Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Federal Award Number: Various

Finding: Inadequate controls over suspension and debarment requirements for consultant contracts (Prior Year Finding)

The Department of Transportation does not have adequate controls over compliance with certain federal requirements for consultant contracts. We tested eighteen consultant contracts for internal controls over procurement, and suspension and debarment. Six of the eighteen Consultant Registration Forms did not contain the suspension and debarment certification. For ten of the eighteen consultant contracts tested, the Department of Transportation did not retain the Consultant Registration Form. If certifications are not obtained, then there is an increased risk of noncompliance with suspension and debarment requirements.

Title 49 CFR Part 18 prohibits non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred. Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principles are not suspended or debarred. Consultants are required to complete a

Consultant Registration Form, which specifically addresses whether the consultant has been suspended or debarred.

It was noted during the audit that in addition to the Contracts Section other units within the Department of Transportation prepared consultant agreements. The lack of guidance over consultant agreements from the Contract Section to the other units resulted in the omission of specific suspension and debarment language in the consultant agreements. Thirteen of the eighteen consultant contracts that we sampled did not contain the appropriate suspension and debarment language.

Recommendation:

In order to ensure that the Department of Transportation is not contracting with suspended or debarred parties, we recommend that the Department follow established suspension and debarment procedures and retain the Consultant Registration Form.

In order to ensure that appropriate suspension and debarment language is included in the consultant's agreement, we recommend that the Department establish internal control procedures over the consultant agreements.

Auditee Response/Corrective Action Plan:

Contact Person: Bruce Carter - 624-3430

We concur with the finding. The Department has established Consultant General Conditions to govern all of its consultant contracts that became effective on July 1, 2002. Appendix A to said Consultant General Conditions consists of the contracting requirements for federally-funded contracts, which includes a certification regarding suspension and debarment. By signing a contract governed by these General Conditions, a consultant is certifying that they are not suspended or debarred. Additionally, approximately a year ago, the Department added suspension and debarment declarations to the Consultant Registration Form. We will continue to receive such declarations from the consultant community as a requirement for entering into a contract with the Department. Additionally, the Contracts Section will attempt to provide oversight for consultant processes to other units within the Department, which have lacked such internal guidance in the past. Additionally, the Department is about to issue an updated consultant procedures manual which outlines the regulations, laws, procedures, templates and sources of information for the acquisition and administration of consultant contracts.

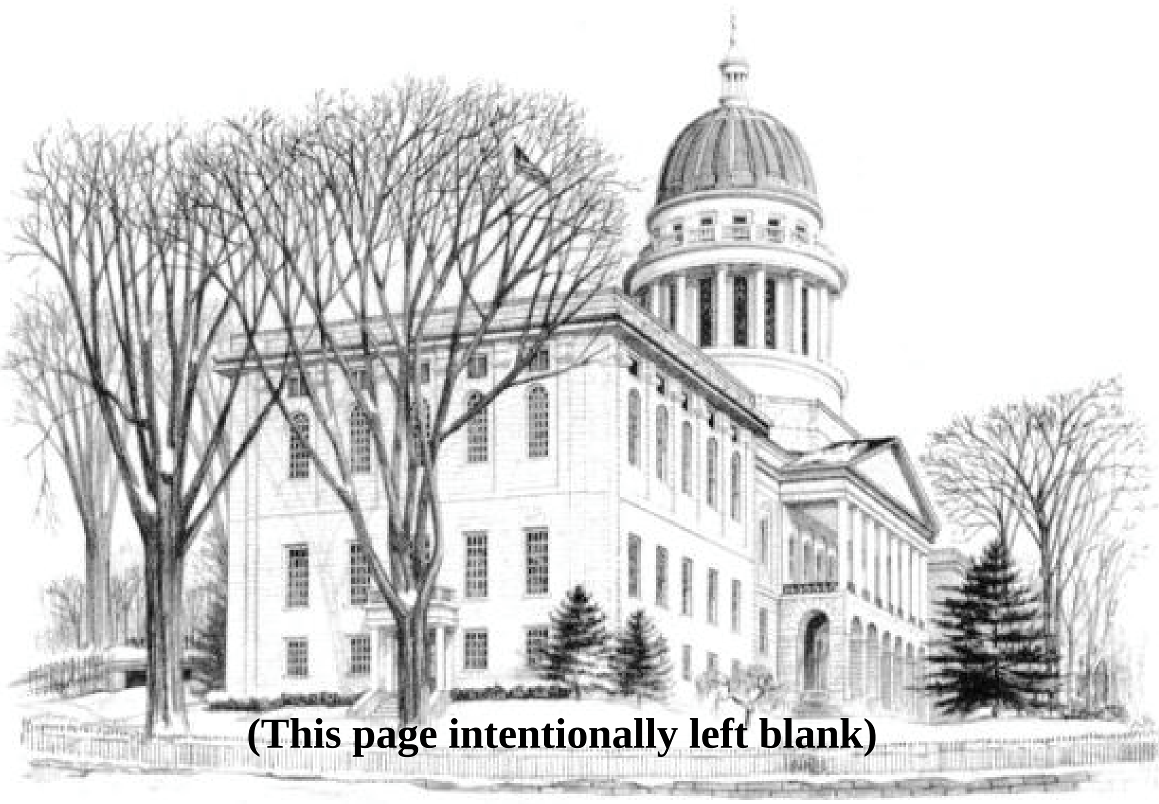
The corrective action plan will be completed by June 30, 2003.

State of Maine
Office of the Treasurer of State

Summary of Federal Findings

With respect to federal programs, the only area that is the responsibility of the State Treasurer is to satisfy the administrative requirements of the Cash Management Improvement Act (CMIA). We found that the State Treasurer did not monitor the compliance of the Departments of Labor, Human Services, Education, Behavioral and Developmental Services, Corrections and Defense, Veterans and Emergency Management with requirements regarding draws of federal funds. We also found that one federal program was omitted from the CMIA Agreement.

The CMIA requires that States minimize the time between the receipt of federal funds and the use of those funds. The CMIA Agreement is negotiated between the State of Maine and the U.S. Department of the Treasury. It includes programs whose awards exceed a certain dollar amount, and specifies the manner in which federal funds may be drawn and how interest will be calculated if federal funds are not drawn as specified.



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Office of the Treasurer of State

(02-92) Office of the Treasurer of State

Various
CFDA#: Various **Questioned Costs:** None

Federal Award Number: Various

Finding: Non-compliance with Cash Management Improvement Act (Prior Year Finding)

The Office of the Treasurer of State did not satisfy all administrative requirements of the Cash Management Improvement Act (CMIA). The Office is responsible for administering the Act for the State of Maine. These responsibilities include negotiating the annual CMIA Agreement between the State and the U.S. Department of the Treasury, preparing the CMIA Annual Report and monitoring State agencies' compliance with CMIA provisions.

We noted the following instances of noncompliance or inadequate internal control:

- One federal program, Performance Partnership Grants, was omitted from the Agreement and from the Annual Report for fiscal year 2002. As a result, no drawdown methods were designated, nor interest calculations made for this program.

- The Treasurer's Office did not monitor the compliance of the Departments of Labor, Human Services, Education, Behavioral and Developmental Services, Corrections, and Defense, Veterans, and Emergency Management with drawdown procedures outlined in CMIA Agreement.

Recommendation:

We recommend that the Office of the Treasurer monitor agencies' compliance with drawdown methods and ensure that all agencies provide sufficient information to provide an accurate interest liability calculation. We also recommend that controls be implemented to ensure that all applicable programs are included in the CMIA Agreement and to ensure that exceptions are noted for those major programs in the agreement that are intentionally excluded.

Auditee Response/Corrective Action Plan:

In late November of 2002 the Treasurer's Office was able to acquire a position to serve as CMIA Coordinator. Through meetings with State Agencies, contacts with the Financial Management Service Division of the US Treasury, discussions with Accounts and Control and Audit, a more thorough understanding of the issues involved in drawing down federal funds, and the corresponding CMIA implications, has been continuously underway.

Office of the Treasurer of State

For both major and non-major federal programs, several controls have been implemented. One of the first accomplishments made in late 2002 was the cooperative development by Treasury and Accounts and Control of a monthly schedule now used to review the MFASIS cash balances of federal programs. This schedule indicates the timeliness of federal funds received against disbursements. Federal programs that have cash balances out of proportion with their average draw amounts are contacted. More insight is also gained from regular queries of the financial warehouse. This helps the Treasurer's Office verify and further understand the receipt and disbursement of federal funds.

In addition, a quarterly schedule of random federal draw sampling has been established specifically for the federal grants included in the TSA. Source documentation is requested to determine if funding techniques are in compliance with the CMIA agreement, and also to ensure that these funding techniques are appropriate for the respective programs. A Federal Drawdown Detail Form data sheet has been formatted and implemented, and is used to document the intricacies of the drawdown techniques and program requirements. This information will be used throughout the year, and again at year-end as the foundation for the annual preparation of the Treasury State Agreement.

During this annual preparation, the Dept. of Audit has made a special effort to supply the Treasurer's office with a copy of a final draft of the SEFA. The SEFA is used to determine which programs will be a part of the TSA for the next fiscal year. The Treasurer's office had been previously using the most recent SEFA available, which oftentimes was not finalized. Some last minute changes in the SEFA therefore could not be incorporated into the TSA. Treasury has also implemented a new control when determining which programs will be included in the TSA. The SEFA is reformatted to capture all CFDA lines, at which point the aggregate total is applied to the CMIA threshold.

Overall, we are optimistic with the positive responses received from State Agencies and their willingness to work with this Office toward CMIA compliance. With the resources of a position dedicated to CMIA, it has been a joint educational venture resulting in early signs of improvement

STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2002

Finding Number: 02-01

Finding: Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)

Department of Administrative and Financial Services
Division of Financial and Personnel Services, Bureau of Accounts and Control
Department of Conservation, Bureau of General Services

Contact: Terry Brann, Deputy State Controller, 626-8420
We are currently working on the fixed assets policy manual to clarify the reporting requirements. We have assigned a staff member to this effort and he is coordinating the efforts around physical inventories and timely reconciliation of the fixed assets system. Also, we are meeting with representatives of BGS and DFPS to clearly define the financial statement requirements and each agency's role in this process. Ultimately, we will establish a central point of contact for providing and reconciling this information.

This year we are incorporating expanded guidance in both the "general information" and "agency-specific instructions" sections of our fiscal year end closing package in order to ensure that agencies understand the need to report this information. We will follow up with agencies in year-end liaison meetings to further explain the closing package instructions.

Contact: Will Harris, Director of General Services, 287-2215
The Department uses a sophisticated land database to keep track of its property. Land owned by the Department sometimes spans more than one town. Reports from the database by town showed the same parcel in its entirety in each town in which it was located thus creating a duplication. This duplication was discovered and has since been corrected.

Finding Number: 02-02

Finding: Inadequate internal control and disclosure over revenue reporting

Department of Administrative and Financial Services
Bureau of Accounts and Control

Contact: Terry Brann, Deputy State Controller, 626-8420
Our closing package did not identify the revenue stream associated with the outstanding receivable balance as one specifically requiring accrual. We are clarifying the guidance in our closing package to require accrual of outstanding receivables for all revenue streams of $1 million or more annually. Our closing package does require the agency (BMV) to provide the balance of deferred revenue at year end, which BMV provided.

Corrective Action Plan

We inadvertently entered the new (FY 02 only) additions to deferred revenue rather than the accumulated amount through the end of FY 02. Both amounts were provided by BMV. In essence, the control system around acquiring the information worked, but simple human error caused us to report the incorrect amount.

Contact: James Belanger, 624-9005
The Bureau of Motor Vehicles is going through a computer migration which will provide the capabilities needed to provide the detail information that is necessary to record and report revenues collected as recommended above. The anticipated implementation of the new computer system is expected during fiscal year 2004. The change in the method of recording earned, unearned and deferred revenue is anticipated to begin by January 1, 2005.

Finding Number: 02-03

Finding: Inadequate internal control over reporting of loans receivable

Department of Administrative and Financial Services, Bureau of Accounts and Control
Department of Economic and Community Development

Contact: Orman Whitcomb, 624-9819
The Department of Audit has provided information to the Office of Community Development (OCD) staff regarding the proper method of listing and reporting loans receivable prior to this audit. Last year in the process of instituting new procedures to comply with this issue, the OCD Financial Representative resigned. Unfortunately this happened just before the loans receivable report was due and that person had been assigned this duty. Being unable to fill this position due to the "hiring freeze," we were given permission to have the person in our Accountant II position take over the duties on an "acting" basis. Unfortunately, there is more work between the Financial Representative and Accountant II position than one person can complete. Therefore, the person responsible for initial intake of our loan applications was asked to complete this report. Although a relatively new DECD employee, she completed some valuable research of historical data and discovered some errors in our receivables list and the report was filed. We suspected at the time, and had conveyed to the Department of Audit that there may be some additional adjustments necessary.

To complicate matters even more, the OCD had contracted with FAME for servicing of our loans about two years ago. Because we had a full staff and a very qualified (extensive experience with business analysis and loan servicing) new employee we decided to take back the responsibility of servicing our loans from FAME, obviously not realizing that two "key" people in the process would be leaving within six months. Since that time, several OCD staff members have been researching our loan portfolio actively looking for errors and we have started using a loan servicing software package. We anticipate that the involvement of additional staff and the new software will provide

the means to complete the report for the end of this fiscal year as an accurate representation of our current loans receivable, uncollectible accounts and detail of principal and interest earned. These actions will provide a method to accurately maintain this information into the future.

Contact: Terry Brann, Deputy State Controller, 626-8420
We will work with DECD to properly record these loans receivable.

Finding Number: 02-04

Finding: Controls inadequate to prevent interfund misstatement of cash and vouchers payable

Department of Administrative and Financial Services, Bureau of Accounts and Control

Contact: Terry Brann, Deputy State Controller, 626-8420
We agree with the Auditor's Finding and Recommendation. This is a system error that may have existed for as long as the system has been in use. The Deputy State Controller is working with BIS to determine the appropriate corrective action.

Finding Number: 02-05

Finding: Reporting of Component Unit financial information inadequate

Department of Administrative and Financial Services, Bureau of Accounts and Control

Contact: Terry Brann, Deputy State Controller, 626-8420

1. New statutory language should improve the process of identifying and tracking monies held by component units and related organizations.

2. We jointly determined that these amounts could be removed from the reporting entity financials without a material effect. We will contact the auditors for Loring Development Authority to correct this issue going forward.

3. We will be asking the Attorney General's Office and counsel for FAME to review the pertinent statutes to determine the proper ownership of these assets. Based on that review, we will discuss the proper presentation of these balances with FAME and their auditors.

We will revise the format for reporting component units to comply with GASB 34.

Corrective Action Plan

<u>Finding Number</u>: 02-06

<u>Finding</u>: Inadequate maintenance of the fixed asset system

Department of Administrative and Financial Services
Bureau of Information Services

Contact: Kirsten Figueroa, 624-4800
We agree with this finding. A physical inventory for the Bureau of Information Services has been a long time coming and DFPS was finally successful in getting the process moving in Fiscal Year 2003. To date, significant progress has been made to address deficiencies in the fixed asset system. Thus far, approximately $11 million of disposed assets have been removed from the fixed asset system. Also, another $3.8 million of items improperly classified as fixed assets have been removed from the BIS balance sheet; these are telephone wiring and data cabling that are more appropriately categorized as assets of the various buildings rather than BIS. Both the Fixed Assets and Accumulated Depreciation balance sheet accounts within BIS have been adjusted.

<u>Finding Number</u>: 02-07

<u>Finding</u>: Unresolved lease valuation and reporting differences (Prior Year Finding)

Department of Administrative and Financial Services, Bureau of Accounts and Control
Division of Financial and Personnel Services

Contact: Kirsten Figueroa, 624-4800
In Fiscal Year 2002, DFPS reevaluated every lease transaction. We documented a clear and concise written audit trail of the best approximation of current fair market value for each lease. To consistently reach this approximation, we used the latest town assessed value of the building and/or land, with additional consideration given to significant building renovations (with documentation in the form of building permits or a new assessment by the town). In accordance with FASB 13, we consider our valuation process adequate as a consistent application to each and every lease resulting in a reasonable estimate of fair market value.

DFPS agrees with the importance of continuing to refine and review procedures used to record and disclose lease transactions to ensure continued compliance with all accounting requirements. The Audit review included an additional step that we have added to our process, which involves obtaining an opinion (written format, either email or letter) from the town assessor in situations when the town assessment is not current. We have implemented this process as of April 2003. Also, we have added a "verification" step to our journal process to ensure that "new year" leases are not included in our year end journals.

Corrective Action Plan

A tremendous amount of work occurred on the part of both Audit and DFPS with regards to outstanding Capital Lease issues. DFPS feels the lease database and classification process will be the stronger as a result of that cooperative effort.

Finding Number: 02-08

Finding: Inadequate internal controls over billings and accounts receivable

Department of Behaviorial and Developmental Services
Bureau of Financial Administration-Central Office

Contact: Anke Siem, Director of Accounting, 287-4277
As a result of the consultant's report, a contract has been written to develop an automated billing system that will eliminate the need for separate databases and spreadsheets. The new system will also comply with the new HIPAA requirements. The contract will be effective June 16, 2003, when the vendor will begin working on the new system. The vendor will also provide in depth training for staff on the new system. Internal control will greatly improve once the system is in place due to extensive staff training and having a system specifically tailored to the billing.

This new system and internal controls will allow the Department to bill Medicare for physician services provided at the Bangor Mental Health Institute and prevent billing delays to the Medicare program.

We met with Accounts & Control regarding the reporting of accounts receivable at year-end. We were advised that this has not been an issue in previous years due to high materiality levels, which did not require us to report the receivables. With GASB 34 in place, substantial accounting changes have taken place and it appears that the accounts receivable will have to be reported for the year ending 6/30/2003. We are waiting for the final year-end requirements from the Department of Administrative and Financial Services and will comply with the instructions.

The full conversion to the new system is expected to be completed by June 30, 2004.

Finding Number: 02-09

Finding: Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)

Department of Conservation, Bureau of Parks and Lands
Department of Administrative and Financial Services, Bureau of Accounts and Control

Contact: Will Harris, Director. General Services, 287-2215

Corrective Action Plan

The Department uses a sophisticated land database to keep track of its property. Land owned by the Department sometimes spans more than one town. Reports from the database by town showed the same parcel in its entirety in each town in which it was located thus creating a duplication. This duplication was discovered and has since been corrected.

Contact: Terry Brann, Deputy State Controller. 626-8420
We are currently working on the fixed assets policy manual to clarify the reporting requirements. We have assigned a staff member to this effort and he is coordinating the efforts around physical inventories and timely reconciliation of the fixed assets system. Also, we are meeting with representatives of BGS and DFPS to clearly define the financial statement requirements and each agency's role in this process. Ultimately, we will establish a central point of contact for providing and reconciling this information.

This year we are incorporating expanded guidance in both the "general information" and "agency-specific instructions" sections of our fiscal year end closing package in order to ensure that agencies understand the need to report this information. We will follow up with agencies in year-end liaison meetings to further explain the closing package instructions

Finding Number: 02-10

Finding: Inadequate internal control over reporting of loans receivable

Department of Economic and Community Development, Office of Tourism and Community Development
Department of Administrative and Financial Services, Bureau of Accounts and Control

Contact: Orman Whitcomb, 624-9819
The Department of Audit has provided information to the OCD staff regarding the proper method of listing and reporting loans receivable prior to this audit. Last year in the process of instituting new procedures to comply with this issue, the OCD Financial Representative resigned. Unfortunately this happened just before the loans receivable report was due and that person had been assigned this duty. Being unable to fill this position due to the "hiring freeze," we were given permission to have the person in our Accountant II position take over the duties on an "acting" basis. Unfortunately, there is more work between the Financial Representative and Accountant II position than one person can complete. Therefore, the person responsible for initial intake of our loan applications was asked to complete this report. Although a relatively new DECD employee, she completed some valuable research of historical data and discovered some errors in our receivables list and the report was filed. We suspected at the time, and had conveyed to the Department of Audit that there may be some additional adjustments necessary.

To complicate matters even more, the OCD had contracted with FAME for servicing of our loans about two years ago. Because we had a full staff and a very qualified (extensive experience with business analysis and loan servicing) new employee we decided to take back the responsibility of servicing our loans from FAME, obviously not realizing that two “key” people in the process would be leaving within six months. Since that time, several OCD staff members have been researching our loan portfolio actively looking for errors and we have started using a loan servicing software package. We anticipate that the involvement of additional staff and the new software will provide the means to complete the report for the end of this fiscal year as an accurate representation of our current loans receivable, uncollectible accounts and detail of principal and interest earned. These actions will provide a method to accurately maintain this information into the future.

Contact: Terry Brann, Deputy State Controller, 626-8420
We will work with DECD to properly record these loans receivable.

<u>Finding Number</u>: 02-11

<u>Finding</u>: Inadequate internal control over financial reporting

Department of Environmental Protection, Office of Management Services,
Bureau of Remediation and Waste Management

Contact: George Viles, 287-7832
Due to the reporting requirements for terminal facilities, it is not possible for the Department to know what revenue will be received in the months of May and June. The Department will begin the practice of informing the Bureau of Accounts and Control of likely revenues for those months, based on receipts during the same period in the previous years and any other pertinent factors. Corrective action was taken as of May 31, 2003.

<u>Finding Number</u>: 02-12

<u>Finding</u>: Accounting for federal funds inadequate

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1867

I have been taken aback by this finding since the Division’s "administration of federal funds" has never been an Audit Department finding in the seventeen years that I have worked in the Division and we have been utilizing the same accounting practices to administer federal funds during that period.

- Identify program activity with specific accounts:

Corrective Action Plan

This recommendation to establish separate accounts for each Program or funding source would serve to simplify accounting and auditing. The expansion of accounts without more staff and resources could lead to more inadequate fund administration. This is because creating more accounts would require more accounting, more budgeting, thus more work. Also, this creation of more accounts would have to be approved by the Administration and the Legislature.

- Establish and maintain a chart of accounts:

The Department does not concur with the statement that it cannot provide a complete and accurate chart of account as we do have all of the report orgs applicable to each appropriation org. The Division has a database that is updated regularly and has printed out annually said Chart of Accounts.

- Document its procedures:

The Assistant Director of the Division has been tasked to compile a procedures manual, which is a work in progress. It is expected to be complete by the end of 2004.

- Record all transactions in the accounting system:

The Department does concur with that the actual cost allocation activity does not occur in MFASIS at the detailed or lower level that the Department of Audit requests. This would be a major change in current accounting practices in the Division of Financial Services and, again would require more staff and resources to track and process all the transactions necessary to satisfy this finding. If to satisfy this particular issue means transferring revenues to each individual reporting organization in MFASIS, this is a lot of work that would require even more staff.

- Review and reconcile account activity:

The Department, again, due to lack of staffing and resources, "does not consistently review and document its reconciliation of its accounts."

- Maintain neat and orderly supporting documentation for all reports filed:

The Department questions the materiality of this bullet. The Division of Financial Services has too heavy of a workload and not enough resources to neatly organize it’s documentation to satisfy the Audit Department. However, the senior staff will be asked to do some self-analysis of their reporting requirements to come up with better ways to document.

- Establish standards for consistent reporting and document retention:

See the above response.

- Ensure that accounting personnel are trained and qualified:

The finding mentioned the Division of Financial Services has 5 Account Managers (Management Analyst IIs and Senior Staff Accountants). There are really only 4, as one

works on the Cost Allocation Plan. Also, it is noteworthy that the qualifications for these senior positions are in question. The Department agrees these positions should be upgraded. Unfortunately, the Bureau of Human Resources, as recently as this month, disapproved FJA-1s to upgrade these senior positions to Financial Analysts, stating these positions were properly classified. We observe that at least one agency, with apparently much simpler accounting, has 3 Financial Analysts, and we will pursue this further. The Department has a very small Central Administration budget, and training funds are scarce. In C. 451 the Department of Administration and Financial Services has been tasked to see that agency fiscal staff have access to proper training.

- Comply with Cash Management Improvement Act criteria:

The Department does not concur with the statement that it has an incomplete understanding of the Cash Management Improvement Act. Occasionally, the agency has drawn down federal funds not in compliance with the CMIA Agreement. However this was to cover outstanding state obligations, and in order not to hold bills until the next scheduled draw down, per CMIA agreement. The agency has worked closely with the CMIA Coordinator at the State Treasurer's Office annually to revise the draw down methodology to fit the Departments cash needs. This has led to the Department alleviating the overwhelming majority of non-compliant drawdowns.

- Request federal program cash only for that program:

The Department realizes the communication / co-ordination between the one staff member who draws down all the agency's federal cash and the Accountant Managers who are responsible for the accounting of each program needed to improve and has been since several findings over the last few years have noted this deficiency. The Department does not concur with relating this communication issue with the overdraw of $19 mil. in TANF and $ 8.3 mil. in Title IV-E Foster Care as stated in this finding. A lack of communication / coordination was not the major factor contributing to these over draws. (See the specific responses to the specific findings.)

- Ensure that program personnel charge only allowable expenditures for eligible program participants:

The Department's program personnel are usually very aware of what is an allowable cost for their specific programs.

The Department has had a high turnover staff rate over the last few years due mostly to retirement of senior and long-time employees. It is calculated at 71%, over a two-year period. While it is true that a lot of institutional knowledge has left, it can also be said some of the new personnel are doing better accounting then these predecessors. The Department of Audit has also expanded their staff significantly, thus expanding the scope of their audit, and discovering multi-year issues that were not uncovered in prior audits.

The Division of Financial Services has not had an increase in staff in the seventeen years I have been here, while the number; complexity and dollar value of DHS Programs has increased dramatically. It will require significantly more staff to comply

with this finding. The Division personnel currently focuses on its massive daily workload and does not have the human resources for checks and balances, reconciliations and internal controls

Recently, there has been a movement by the state to increase oversight with a new agency and by increasing the staff in the Department of Administration and Financial Services in the area of internal control. While this may well be warranted, until there are more human resources to do financial work at the Department of Human Services not much can be improved.

Finding Number: 02-13

Finding: Inadequate internal controls over subrecipient cash balances, reporting, and cash collection

Department of Human Services, Division of Financial Services

Contact Person: Jeannette Talbot, 287-5037
CSC - Contract Settlements:
Payments issued to contracted subrecipients are initiated in two ways: (1) the automated contract payroll system which resides in the Maine Automated Child Welfare Information System, the primary method of payment; and (2) payment of hard copy invoices. The checks are actually issued by MFASIS, the state's IT financial system. No checks are issued within the Community Services Center.

The Planning & Research Associate position in the Service Center is the person assigned to, and responsible for, authorizing contract payments, based on the payment schedule/method prescribed in the individual contracts.

Checks received from subrecipients in pre-audit contract settlements are received by the Contract Administrator identified in the contract. The Contract Administrator verifies the check amount with the Final Agreement Settlement Form (ASF) Pro Formas submitted by the subrecipient at the close of the contract period. The Contract Administrator then forwards the check and a copy of the ASF Pro Formas to the Contract Manager assigned contract/contract audit resolution. The Contract Manager records the payment, places a copy of the check in the fiscal contract file that is sent to the Department's Division of Audit after settlement of the contract, and maintains a copy of the check and the ASF Pro Formas in the contract agency's audit file for reference at the time of audit resolution.

The Contract Manager then forwards the check, and a copy of the ASF Pro Formas to the Financial Manager who identifies the account(s) included in the contract to which the payment needs to be posted. The Financial Manager forwards the check, an authorization to deposit cover page that identifies the account(s) and amount(s) to be

credited, and a backup spreadsheet of the deposit calculations (when multiple accounts are involved) to the Division of Financial Services, Cashiers Division for deposit.

CSC - Cash Balances:
Contract agencies must provide quarterly financial statements of contract income and expenses. If expenses are less than payments received from the Department, the next scheduled contract payment is adjusted downward, by account, to reconcile contract income/expenses.

CSC - Reimbursements:
The Community Services Center's general practice regarding contract settlements has been to recall all excess payment amounts at the close of the contract. (See attached CSC Action Transmittal #DCCS-CP-2001-07). Reimbursements made by subrecipients of all General Fund and Federal Fund monies are credited to expenditures if the original payment was made in the current year, or as an adjustment to the balance forward account if the original payment was made in a previous year.

In PL 2001 Chapter 559, An Act to Make Supplemental Appropriations and Allocations for the Expenditures of State Government for the Fiscal Years Ending June 30, 2002 and June 30, 2003, page 69, the State Legislature instructed the Department to allow contract agencies to carry forward contract cash balances into subsequent contracts for the same service, and to reduce the subsequent contract by the amounts carried forward. The budget document reduced the State General Fund appropriation by a target amount that the General Fund account is expected to "save" by this practice. The FY2003 de-appropriation for contract balance carryovers has been continued in the FY2004-2005 budget. The Community Services Center is complying with the Legislative mandate, and suspending its general contract carryover directive until the budget reduction targets are met.

Finding Number: **02-14**

Finding: Improper transactions

Department of Human Services
Community Services Center, Division of Contracted Community Services

Contact: Jeannette Talbot, 287-5037
The above incident was a one-time occurrence. The Community Services Center complied with federal regulations on federal drawdowns prior to this incident and has been in compliance since this incident.

The Department of Human Services has implemented internal controls within the Division of Financial Services to prevent the recurrence of this type of activity. Any payment (check) that normally is sent directly from the State Treasurer's office to the vendor, but is instead requested to be "flagged" to go to the employee initiating said

payment, must be first justified in writing to the Finance Director or the Deputy Finance Director, and receive written prior approval.

The Department of Human Services is in compliance with state procedures regarding the lapsing of encumbered funds.

State General Funds related to this incident have been returned to the unappropriated fund balance of that fund.

Finding Number: **02-15**

Finding: Insufficient controls over accounts receivable

Department of Human Services, Bureau of Medical Services

Contact: Debbie Couture, 287-1973
With implementation of the Maine Claims Management System (MECMS), replacing the old MMIS system in Fall to Winter 2003-2004, the Bureau of Medical Services will run monthly reports to reconcile the original accounts receivable against the total amount recouped to date. MECMS will enable the Department to offset against any accounts owed by a specific entity (EIN) in order to collect outstanding amounts due the State.

Until MECMS is operational, the BMS will set up an Access database for tracking all accounts receivable. Reports will be done on a monthly basis to monitor the status of all receivables. In addition, the BMS will explore assessing interest and penalties on accounts receivable balances that are in arrears.

Finding Number: **02-16**

Finding: Journal vouchers not adequately supported

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1867
This finding is essentially the same as Human_123, thus the same response applies. The documentation supporting the journal entry is not sufficient because the amounts are based on allotment shortfalls, not actual, identifiable expenditures, or the journal transfer is done at a higher level (appropriation org.), and, therefore, the detail level is not affected for reporting purposes.

Corrective Action Plan

Finding Number: **02-17**

Finding: Inadequate internal controls over reporting of revenue and accounts receivable

Department of Inland Fisheries and Wildlife, Bureau of Administrative Services

Contact: Donald R. Ellis Sr., Chief Accountant, 287-5223
The Department was under the impression that only General Fund receivables needed to be reported, and therefore, the Department identified $1 million in General Fund accounts receivable to be included in the financial statements. An additional $1.2 million in dedicated revenue, and other revenue to be journaled to other agencies, was inadvertently not included.

Beginning with FY-03, Donald R. Ellis Sr., Chief Accountant, will include these other revenues when determining the total of accounts receivable to be reported to Accounts and Control.

Finding Number: **02-18**

Finding: Inadequate internal control over fines and fees receivable

Judicial Department, Administrative Office of the Courts

Contact: Ellen Hjelm, 822-0714
The Judicial Branch agrees with the recommendation stated by the State Audit Department and will develop an aging of all accounts receivable at the end of each fiscal year so that reporting of accounts receivable will be accurate. This procedure will be in place for the fiscal year end of 2003. This aging will be reported to management to monitor trends and overdue accounts.

Finding Number: **02-19**

Finding: Inadequate internal accounting controls over cash seized from citizens

Department of Public Safety, Division of Administrative Services

Contact: Karen Doyle, 287-1001
Administrative Services staff is currently working on identifying the discrepancy between the official MFASIS records and the internal database. As of April 30, 2003, the discrepancy has been reduced to $47,464. The planned action is to identify the entire amount before June 30, 2003. A process is currently in place to reconcile the account on a monthly basis to prevent a discrepancy from building again. Accounting Technician Traci Willis will handle the monthly process to ensure accurate records in the future.

Corrective Action Plan

Finding Number: **02-20**

Finding: Inadequate internal control and disclosure over revenue reporting

Department of the Secretary of State of Maine, Bureau of Motor Vehicles
Department of Administrative and Financial Services, Bureau of Accounts and Control

Contact: James Belanger, 624-9005
The Bureau of Motor Vehicles is going through a computer migration which will provide the capabilities needed to provide the detail information that is necessary to record and report revenues collected as recommended above. The anticipated implementation of the new computer system is expected during fiscal year 2004. The change in the method of recording earned, unearned and deferred revenue is anticipated to begin by January 1, 2005.

Contact: Terry Brann, Deputy State Controller, 626-8420
Our closing package did not identify the revenue stream associated with the outstanding receivable balance as one specifically requiring accrual. We are clarifying the guidance in our closing package to require accrual of outstanding receivables for all revenue streams of $1 million or more annually. Our closing package does require the agency (BMV) to provide the balance of deferred revenue at year end, which BMV provided. We inadvertently entered the new (FY 02 only) additions to deferred revenue rather than the accumulated amount through the end of FY 02. Both amounts were provided by BMV. In essence, the control system around acquiring the information worked, but simple human error caused us to report the incorrect amount.

Finding Number: **02-21**

Finding: Inadequate control over reporting and budgeting InforME service fees

Department of the Secretary of State of Maine, Bureau of Motor Vehicles

Contact: James Belanger, 624-9005
The Bureau of Motor Vehicles negotiated a service level agreement with InforME which was approved by the InforME Board. The distribution of fees collected were incorporated into the service level agreement signed in April 1999 and renewed in April 2002 with the same terms and conditions. The State portion of fees collected, as provided in the agreement, were recorded into the State budget and accounting systems. Fees retained by InforME are not received by or paid by the State and so are not reflected in the state budgeting system, accounting system or financial statements.

Corrective Action Plan

<u>Finding Number</u>: 02-22

<u>Finding</u>: Assets not recorded on State records (Prior Year Finding)

Department of Transportation, Bureau of Finance and Accounting

Contact: Tammy Chase, 624-3123
We concur with the finding. The cargo pier at Mack Point and Deblois Flight Strip will be recorded as assets of the Department. Fixed asset procedures have been developed and implemented to ensure that asset records are complete and accurate for fiscal year ending June 30, 2003.

<u>Finding Number</u>: 02-23

<u>Finding</u>: Non-compliance with cash management requirements (Prior Year Finding)

Department of Behavioral and Developmental Services, Office of Substance Abuse

Contact: Jeffrey Toothaker, 287-6237
OSA was able to change to the estimated revenue drawdown method during the current year. This has allowed us to comply with cash management provisions as well as contract payment dates in provider agency contracts. We have been informed by Treasury and the Controller's Office that we are no longer covered by the Cash Management Improvement Act (CMIA) Agreement so will no longer be able to use this drawdown method, effective July 1, 2003. Unless we are able to submit bills without immediate cash availability, it will be difficult to fully comply with both cash management provisions and contract payment requirements.

<u>Finding Number</u>: 02-24

<u>Finding</u>: Improper account usage

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Roberta Creamer, 626-4493
The audit finding has been corrected. The corrective action that took place required the use of advances from the National Guard Bureau. Beginning in January 2003, advances have been issued resulting in the audit finding being corrected.

<u>Finding Number</u>: 02-25

<u>Finding</u>: Inadequate internal control over cash management (Prior Year Finding)

Corrective Action Plan

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Linda Gosselin, 626-4346/Roberta Creamer, 626-4493
The Department is now in the process of having $00 balances in the affected accounts. Advances are asked for weekly to process the bills that are on hold on the MFASIS system. When bills are processed the balances in the accounts should again zero out. This continuation should result in a clearing of all monies.

Finding Number: 02-26

Finding: Non-federal cash balance in the federal expenditures fund

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Roberta Creamer, 626-4493
The Department concurs with the finding that approximately $270,000 in the federal expenditures fund account for CFDA 12.401 is excess. The Department is undertaking an internal accounting review to determine if this amount should be returned to the General Fund or to the United States Property and Fiscal Office (USPFO). Upon completion of our review, our recommendation will be reviewed by both the Budget Office and the USPFO and the funds transferred to the appropriate account(s). This should be completed by June 15, 2003.

Finding Number: 02-27

Finding: Inadequate internal control over cash management (Prior Year Finding)

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Roberta Creamer, 626-4493
The RSMS account is now utilizing advances and reconciliations. The funds are paid to RSMS as payment for contract services when those services are billed. Advances are requested when the payments are due and no excess funds are residing in this account as has happened in the past.

Finding Number: 02-28

Finding: Excess federal funds in an account

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Roberta Creamer, 626-4493

Corrective Action Plan

The excess funds identified in this finding are being maintained until the National Guard Bureau rules on an appeal on three reimbursable items. Upon receipt of the response to our appeal, any remaining funds will be remitted to the USPFO.

Finding Number: 02-29

Finding: Lack of controls over compliance with suspension and debarment requirements

Department of Defense, Veteran's and Emergency Management, Military Bureau

Contact: Robert St. Pierre, 626-4461/Roberta Creamer, 626-4493
This finding has been corrected. The Department certification statement will be signed by all future vendors with contracts valued over $100,000. Additionally, the vendors identified in the finding have subsequently been approved.

Finding Number: 02-30

Finding: Site visits not made

Department of Education, Office of Compensatory Education

Contact: Kathryn Manning, Coordinator, Compensatory Education, 624-6705
A process to monitor districts/schools for compliance with the No Child Left Behind Act has been developed by the Title I Office. Pilot visits to four districts have been scheduled for this fiscal year, 2002-03. The process will be reviewed in May 2003 and all districts will be scheduled for review during this authorization.

The target date for completion of the corrective action is fiscal year 2002-03.

Finding Number: 02-31

Finding: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

Department of Education, Bureau of Finance

Contact: Lesley Clark, Chief Accountant, School Support Services, 624-6866
The three programs mentioned above were placed on estimated revenue during fiscal year 2002. We have begun monitoring disbursements versus draws on a monthly basis and discuss any problems during staff meetings.

This corrective action was implemented during fiscal year 2002.

Corrective Action Plan

Finding Number: **02-32**

Finding: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

Department of Education, Division of Special Services

Contact: John Kierstead, Consultant, Exceptional Children, 624-6650.
Computer printouts are generated by this Department but not until after December when all expenditures are completed and reports are submitted to the Department. The print-out is a comparison of budget to previous year actual. We review the school units that did not budget at or above the previous year's actuals. By then we are in the middle of meeting the child count and reporting requirements which takes us until April. In April we are then preparing for workshops for systems operators.

The issue is not that we don't have control procedures in place but rather it is our ability to maintain those procedures. It is an extremely labor intensive effort. Currently, we are receiving incomplete budgeted figures from the EF-M-46 to conduct this analysis and districts are not being forced to complete the information.

For fiscal year 1999-00, the Department reviewed each school unit for the maintenance of effort requirement, performed follow up with each school unit, drafted letters of follow-up with those found to be in noncompliance, and analyzed and collected responses. This was conducted on actual to actual since we had many school units not producing budgeted figures. This information was forwarded to the U.S. Department of Education, Office of Special Education Programs and accepted by them since all units had legitimate reasons for the variances. This office responded to Audit Control #01-00-1814 for audit period 7/1/99 to 6/30/00 that recommended the EF-S-02 and EF-S-07 reports be adjusted to allow school units to provide reasons why their expenditures were less than the previous year.

We will review actual to actual for 2000-2001, 2001-2002 since the budgeted information is not available and the actual to budget analysis is only for eligibility to receive a grant. It may be necessary to request that this information be reported on the EF-S-02 rather than on EF-M-46 which is where it should currently be reported but is not.

The target date for completion of the corrective action is fiscal year 2003.

Finding Number: **02-33**

Finding: Cash balance negative; financial reports not in agreement with accounting records or SEFA

Department of Education, Division of Food and Nutrition Services

Corrective Action Plan

Contact: Mary Moody, Education Specialist, Child Nutrition Services, 624-6843
Program staff will implement the auditor's recommendations during fiscal year 2003.

Finding Number: 02-34

Finding: Inadequate internal controls over subrecipients' cash balances (Prior Year Finding)

Department of Education, Support Systems Team

Contact: Lesley Clark, Chief Accountant, School Support Services, 624-6866.
Currently, Finance is providing a list to all program managers advising them which school units are on cash management. Finance now makes the decision for all Federal programs as to whether payments should be withheld and program managers are notified after the fact. If program managers want to reverse that decision, the school unit must provide the Department with an interim EF-U-415 cash report showing all excess cash has been disbursed before funds will be released. This corrective action was implemented during fiscal year 2003.

Finding Number: 02-35

Finding: Inadequate internal controls and compliance over cash management (Prior Year Finding)

ACE Service Center, Bureau of Land and Water Quality

Contact: George Viles, 287-7832
The Department has changed its procedures and implemented more frequent cash draw downs to minimize the elapsed time between the receipt of Federal funds and their pay out. Corrective action was taken in the current cycle of Nonpoint Source Program contracts in April 2003.

Finding Number: 02-36

Finding: Inadequate controls over subrecipient monitoring responsibilities (Prior Year Finding)

ACE Service Center, Bureau of Land and Water Quality

Contact: George Viles, 287-7832
The monitoring procedures for the Nonpoint Source Program will be carried out fully. Contract requirements have been revised to address the audit findings. Corrective action was taken as of April 2003.

Corrective Action Plan

<u>Finding Number</u>: **02-37**

<u>Finding</u>: No controls over suspension and debarment requirements (Prior Year Finding)

ACE Service Center, Bureau of Land and Water Quality

Contact: George Viles, 2877832
The Department has revised contract forms for the Nonpoint Source Program to incorporate suspension and debarment requirements. Corrective action was taken as of April 2003.

<u>Finding Number</u>: **02-38**

<u>Finding</u>: No controls over inclusion of federal procurement requirements in subrecipient contracts (Prior Year Finding)

ACE Service Center, Bureau of Land and Water Quality

Contact: George Viles, 287-7832
The Department has now incorporated Federal procurement requirements in the current cycle of Nonpoint Source Program contracts. Corrective action was taken as of April 2003.

<u>Finding Number</u>: **02-39**

<u>Finding</u>: TANF grant overdrawn

Department of Human Services, Division of Financial Services

Contact: Carol Bean, 287-1869
DHS did draw 18,968,786 in excess TANF Block Grant funds over a period of time for the Bureau of Family Independence Administrative Expenditures. This Program relies heavily on allocating costs to its major programs, including: TANF, Child Support Collections, Food Stamps and MaineCare (Medicaid). In preparing a reconciliation of this account, the Department was able to identify other programs, including Child Support Collections and Medicaid Administration that support BFI with more revenues. These Programs' grants had not transferred enough funds to support their share of administrative expenditures, thus resulting in the TANF Block Grant being over drawn.

Currently the Department of Human Services is undergoing a review of its accounting processes and procedures, and specifically a reconciliation of the TANF cash over draw

by an accounting firm. The firm will also build a model for DHS to follow in reconciling drawdowns to expenditures in the future.

Finding Number: 02-40

Finding: Payments made to ineligible recipients (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060
Recommendation 1: The Quality Assurance of the Title IV-E eligibility is being assigned to a DROMBO Financial Resources Specialist. An annual statewide review of approximately 500 cases will be conducted to ensure that the client status codes in the Title IV-E eligibility frames and the financial screens of MACWIS are displaying the proper eligibility status, and funding account codes.

Recommendation 2: The December 2002 refinement of the funding matrix used by MACWIS for the Child Welfare Payroll (Placement costs) was a result of one such review.

Finding Number: 02-41

Finding: Payments to ineligible recipients (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060
The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement costs) have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 should help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Reducing the number of available rates currently paid through the Levels of Care System will help systemize payment rates. Approximately forty (40) rates are being reduced to two (2) rates for Adoption Assistance cases on July 1, 2003. Current cases will be grand fathered until January 1, 2004, at which time they also will go to the new system. Queries of the rates maintained in MACWIS will be run at least twice per year to review accuracy of the rates paid.

Corrective Action Plan

<u>Finding Number</u>: **02-42**

<u>Finding</u>: Excess payroll costs charged to the Food Stamps program; no controls in place to ensure payroll costs are properly charged to the federal program (Prior Year Finding)

Department of Human Services, Bureau of Family Independence

Contact: John D. Mower, 287-1867
The Department of Human Services' position is that the certification requirement was being met by the employees' electronic signature on the Department's electronic time and attendance (TOMS) System, including identifying work time spent by program(s). The Department expects to utilize the MS-TAMS (Statewide Time and Attendance) System early in fiscal year 2004. There are project and activity fields in MS-TAMS that the Department will be populating with information for employees to select. The Divisions of Financial, Human and Technology Services are working to have these agency-specific fields populated with the proper selections

<u>Finding Number</u>: **02-43**

<u>Finding</u>: Inadequate controls over financial reporting

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1867
The Department of Human Services does not have the staffing to implement the internal controls to oversee every work task of the Division. The Division Director will meet with its senior staff early in fiscal year 2004 to go over this finding in detail and make sure they have an understanding of the sources of information for compiling the SEFA.

The State has contracted with an accounting firm to review the Department's accounting practices and make recommendations. One of the areas they will focus on is adequate staffing and internal controls requirements.

<u>Finding Number</u>: **02-44**

<u>Finding</u>: Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)

Department of Human Services, Bureau of Health

Contact: John D. Mower, 287-1867
The Department of Human Services' position, as a whole, is that the certification requirement is being met by the Department (and State as a whole) through the

conversion from manual paper payroll time sheets to an electronic Time & Attendance Management System (TOMS/TAMS) in early 2002. Thereby, employees can go on-line and enter their "time sheet," and also their respective Programs, and then forward it, with an electronic signature, to their supervisor for approval.

Finding Number: 02-45

Finding: Inadequate cash management procedures

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1867
The cash management accountant, as of March 31, 2003, is weekly drawing down federal cash for the Immunization program payrolls, and will continue to do so in the future.

Finding Number: 02-46

Finding: Inaccurate financial reporting (Prior Year Finding)

Department of Human Services, Division of Financial Services

Contact: Carol Bean, 287-1869
The Department of Human Services concurs that a worksheet for the Temporary Assistance for Needy Families Program "Gap and Pass-Through" components needed adjusting due to an error in the amount of $1,763,688. DHS has revised the 2001 and 2002 federal ACF-196 TANF reports, as of 5-29-03, to reflect the adjustment.

The Department of Human Services concurs that expenditures for the ACF – 196 report should be accumulated quarterly and built upon the amounts previously reported. The Department will revise the MFASIS GQL Warehouse queries to reflect quarterly expenditures instead of cumulative expenditures. The Department of Human Services also concurs and does prepare quarterly reconciliations to the supporting schedules and the State Accounting System.

The Department of Human Services concurs with item #3. The Department of Human Services does erroneously report expenditures instead of revenue transfers. on the ACF-196 TANF Report. Also the Department of Human Services realizes it is difficult to reconcile TANF revenues to expenditures by federal fiscal year because the FIFO methodology was used in drawing down block grant funds. The Accountant Manager for the TANF Program has re-established cash balances for each years' grant, coordinating with those responsible for cash draw downs. Now that this change in reporting transfers instead of expenses is necessary, the ACF-196 reports will have to be revised during the first quarter of SFY 2004. We will contact the ACF about this

issue. The Department will also begin drawing TANF funds into a TANF account, then transfer the funds to SSBG or CCDF, for a cleaner audit trail.

The Department of Human Services understands the Audit Department's opinion that TANF expenditures for "assistance" and "non assistance" should be segregated based on whether clients are employed or non-employed. However, the Department has e-mailed its federal partners for their interpretation as to how they expect childcare expenses to be reported on their ACF-196 report. Specific questions have been asked concerning "assistance" and "non assistance" and on which lines childcare is to be reported for both employed and non-employed families. DHS has included the Audit Department in its e-mail to the federal government.

Finding Number: **02-47**

Finding: Inadequate controls over accounting for child support (Prior Year Finding)

Department of Human Services- Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services

Contact: Carol Bean, 287-1869
The Department of Human Services does not concur with the Audit Department interpretation of the $5.7 million dollar transfer being inappropriate. PL 2001, Chapter 358, Section KK3, and PL 2001, Chapter 439, Sections X-11, X-7 and Y-1, authorizes the transfer of expenditures from the GF TANF account (010 10A 0138) to the OSR Child Support account (014 10A 0138). Journal Voucher # 81CB848 accomplishes this.

The Department of Human Services has recorded the $2.5 million dollar state reimbursement through Journal Vouchers #81CBCS06 dated 12-02-02, and #81CBCS0206A, dated 01-10-03.

The Department of Human Services is working toward the goal of reconciling the NECSES and MACWIS IT systems to the MFASIS system. Currently ,the Department is working out the details as to why Foster Care collections balances vary. The Foster Care collections posted to NECSES are not equal to the Foster Care Collections reported in MACWIS. DHS is also instituting the use of revenue sources that will not net out the child support collections figures for MaineCare (Medicaid). Other discrepancies that exist involve refunds for overpayments. NECSES records/posts all revenue, while MFASIS figures are a net after refunds are returned. The Department estimates that this reconciliation will be completed by June 2004.

Finding Number: **02-48**

Finding: Inadequate controls and procedures to ensure that only program-related payroll costs are charged to the program (Prior Year Finding)

Corrective Action Plan

Department of Human Services- Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services

Contact: Carol Bean, 287-1869
The Department of Human Services' position, as a whole, is that this certification requirement is being met by an electronic Time and Attendance Management System (TOMS/TAMS). Through this IT system employees can go on-line and enter their time, and also their respective programs. They then forward it to their supervisor, with an electronic signature, for approval.

Adjustments will be made according to electronic time slips for the staff members who work for programs other than Child Support for SFY 2002. Future adjustments will be made on a quarterly basis.
Adjustments were posted to the dedicated account instead of the Federal Child Support account for SFY 2001. Journals have been processed to correct this error.

The adjustments were processed on the below listed journals:

10A 8133SERCU
10A 812DSERCU
10A 812DSERDV
10A 812DSERMH
10A 812DSERLR
10A 813DSERLR
10A 8133SERTD
10A 812DSERTD
10A 8133SERCC
10A 812DSERCC

Finding Number: **02-49**

Finding: Inadequate controls and procedures to ensure accurate financial reporting

Department of Human Services - Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services

Contact: Carol Bean, 287-1869
The Department of Human Services concurs that BFI Bureau-wide training costs, (report org 4004) totaling $757,871, were charged to the Child Support Enforcement Program in error.

The Department of Human Services concurs with the finding concerning double counting of DHSTI child support expenditure figures. DHS does not concur with the auditor's assumption that the $212,081 was "grossed up". The true DHSTI expenditure, that was also included on Schedule 7, did include the vendor paid portion. The double

posting occurred due to the Department's payment being included on the schedule 5, and also the Schedule 7. The figures on schedule 5 did not include the vendor's share.

DHS has corrected the SFY 2002 schedules and corresponding federal reports to reflect the proper charges. Revision to Child Support Enforcement Program reports will be reflected on the 3-31-03 report period.

The Department of Human Services has also corrected the above cost allocation schedule templates for SFY 2003. Revision to Child Support Enforcement Program reports will be reflected for the 3/31/03 reporting period.

Finding Number: 02-50

Finding: Excess federal program funds to pass-through agency; no adjustments made for prior year excess transfers (Prior Year Finding)

Department of Human Services, Division of Financial Services

Contact: Carol Bean, 287-1869
The Department of Human Services concurs with the above audit finding. DHS will seek reimbursement from the Department of Attorney General for the following amounts:

SFY 2001 $673,369
SFY 2002 $437,427

DHS currently transfers funds on a quarterly basis for the Child Support Share of the DAG's expenditures based on time studies submitted by the DAG.

To ask for the return of these funds from DAG, the Department of Human Services has to determine what other funding source will replace these funds at DAG. This issue is being shared with PriceWaterhouseCoopers who is working on a reconciliation model for the DHS Cost Allocation Plan.

Furthermore, DHS will implement a procedure within this calendar year that will compare and compile quarterly the cost allocation schedules and the revenues transferred on a biweekly basis.

Finding Number: 02-51

Finding: Failure to comply with subrecipient monitoring requirements (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Corrective Action Plan

Contact: Jeannette Talbot, 287-5037

- The Community Services Center has developed a database of all contracts that includes the date of the last monitoring visit. This database now allows us to track the monitoring visits to assure that monitoring of all agencies occurs at least once every three years.
- Each monitoring visit report contains a section on the review of client records. The Community Services Center contract administrator conducting the monitoring visits identifies each case reviewed and indicates the result of the review in terms of compliance with eligibility requirements, documentation of income and accuracy of calculation of parent fee. The Community Service Center's position is that this information is sufficient to determine the subrecipient agency's compliance with eligibility and fee policies.
- The database mentioned above also includes an indication of the need for follow up to the last monitoring visit, as well as space to record the date such follow up was conducted. This will allow us to monitor the follow-up measures taken.
- Steps have already been taken to reduce the occurrence of incorrectly calculated client fees and the provision of service to ineligible clients. Errors in fee calculation and determination of eligibility are identified and discussed with subrecipient management as part of each monitoring visit. Corrective action steps are identified and a follow up visit is scheduled. Failure to take corrective action will result in elimination of reimbursement for ineligible clients. In addition, the Community Services Center sent a letter to all subrecipients on April 5, 2002. The letter identified several areas where monitoring visits were finding subrecipients out of compliance with Department policy and stated procedures necessary to assure compliance. The letter also stated that after July 15, 2002, any client record reviewed as part of a monitoring visit that indicates non-compliance with eligibility policies will be considered ineligible, and services provided to these clients will not be reimbursable. A copy of the April 5, 2002 letter is attached.

Finding Number: **02-52**

Finding: Unallowable payroll costs (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Jeannette Talbot, 287-5037

The positions that are in question are being transferred out of the Child Care Development Block Grant in the 2004/2005 Budget, effective July 1, 2003, as this required Legislative action. This was approved in Chapter 20, LD 1319, Page 229. The Department will submit payments to the Federal Government when presented with a bill for payment.

Corrective Action Plan

<u>Finding Number</u>: 02-53

<u>Finding</u>: Inaccurate federal financial reporting (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services
Contact: Patricia V. Shaw, 287-1855
There were additional report orgs added to the Discretionary Fund, which was not communicated to the Account Manager. A system has been set up to correct report orgs from the Program Manager and to compare all report orgs at the start of the new grant year.

\Reporting of the TANF program now requires that the Account Manager for TANF furnish a copy of the TANF report showing actual monies reported. These are located with the Child Care Development Fund Report 269.

Cumulative grant award amounts are not always available when the quarterly reports are prepared, as award letters may be received at any time during the quarter. By the end of the grant all letters have been received and are shown on the final report.

All quarterly reports have been refigured and submitted to the Federal Government.

<u>Finding Number</u>: 02-54

<u>Finding</u>: Inadequate suspension and debarment procedures (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Brian Snow, 287-1747/Carol Armour, 287-5060
The Department will amend section 7 of its Rider D in all of its contracts, after consultation with appropriate federal official. The Department will also move forward with the development of a written procedure for monitoring compliance with the debarment and suspension provision, which would include, but need not be limited to, checking the "List of Parties Excluded from Federal Procurement and Non-procurement Programs" at appropriate times during the procurement process and the carrying out of the Agreement. These actions will occur by August1, 2003.

<u>Finding Number</u>: 02-55

<u>Finding</u>: Title IV-E payments made to unlicensed providers

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060

Corrective Action Plan

The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement costs) have substantially improved the proper coding from the correct program funding for system-generated program payments. An analysis of payments made in March 2002 showed Title IV-E payments made incorrectly to unlicensed providers for 18 children. In March 2003 BCFS testing found there were no Title IV-E payments made to unlicensed providers.

Finding Number: 02-56

Finding: Costs claimed more than once and ineligible participants included (Prior Year Finding)

Department of Human Service - Bureau of Child and Family Services, Division of Financial Services

Contact: Carol Armour, 287-5060
By September 30, 2003 the system programmers will research and rewrite the IT programs used to generate the MACWIS daycare and transportation reports in order that future duplication and eligibility errors will be eliminated. One person has been designated to review each report for accuracy before the expenditures are included in the federal reimbursement reports. Federal reporting allows adjustments to be made retroactively for eight quarters; therefore, the BCFS will analyze the reports for quarters beginning October 1, 2001 through March 31, 2003 for any duplication and eligibility errors. The adjustment needed to correct this audit finding will be submitted to the DHS Division of Financial Services by June 30, 2003 to be included as part of the federal report submitted in July 2003.

Rhonda Parker, BCFS, will be the point person.

Finding Number: 02-57

Finding: Foster Care grant overdrawn (Prior Year Finding)

Department of Human Services, Division of Financial Services

Contact: Patricia V. Shaw, 287-1855
In doing an analysis of the Foster Care Grant, there were problems of using current year expenditures to use up previously awarded funds. This procedure was stopped in the FY 2002 and the Department is using only current Grant Award to cover current expenditures. Once the Grant year has been completed there will be reconciliation, and when funds do not an adjusting draw will be completed. This has been done for the FY 02 Grant. The (PSC) Program Support Center will reflect this in the Quarter ending 06/30/03.

Corrective Action Plan

At the present time there is a corrective action plan in place to draw down additional Adoption Assistance funds on a weekly basis, which will reduce the over draws to federal Foster Care for the "shared costs". It is expected that this plan will correlate the expenditures and the cash draws in both programs.

Finding Number: 02-58

Finding: Control deficiencies over eligibility data (Prior Year Finding)

Department of Human Services - Division of Regional OMB Operations (DROMBOS), Bureau of Child and Family Services (BCFS)

Contact: Carol Armour, 287-5060
Recommendation 1: DROMBO Training. DROMBO staff had training prior to the roll out of the Automated Title IV-E Enhancement to MACWIS in June 2002. A follow-up statewide training occurred in March 2003 that will help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Recommendation 2: DROMBO has assigned a Financial Resources Specialist to do Quality Assurance of the Title IV-E eligibility. An annual of 500 cases Statewide will be conducted to ensure that the client status codes in MACWIS are correct.

Recommendation 3: By July 1, 2003 New Help screens for the Eligibility Module will be available to users that will document all manual update procedures and the resulting interaction between MACWIS screens.

Recommendation 4: Additional refinements of the Automated Title IV-E Enhancement in MACWIS have been on going since roll out and will be completed by September 2003. These refinements include additional system prompts, ticklers and screen changes that are expected to meet this recommendation.

Recommendation 5: The BCFS Program Specialist II (MACWIS Director) believes that this process is already in place. Current MACWIS procedures call for routine testing every time our system deploys software updates (every other month, or sooner). Testing is done by our vendor, and by our testing team. If problems are found within the system they are either fixed immediately, or a work plan is established and work begins to remedy the problem as quickly as possible.

Finding Number: 02-59

Finding: Inadequate controls over accounting for and reporting Title IV-E shared costs (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Corrective Action Plan

Contact: Patricia V. Shaw, 287-1855
A new Cost Allocation Amendment (CAP) for the Title IV-3 Foster Care Program was submitted to the Department of Health and Human Services Division of Cost Allocation for review and approval on 03/18/2003. To date there has been no response from the Federal Government. When this CAP is approved, it will be easy to follow, and will eliminate the current complexity. We expect it will also result in less human error.

In the new CAP duplication of cost, inconsistent computations of factors and inconsistent application of methodology to account for “shared costs” have all been addressed. Duplication of cost has been identified and removed from the spreadsheet. Also, a Procedures Manual has been written that includes the explanation of the calculation and the usage of the factors.

When the new CAP is in place for weekly cash draw downs of Adoption Assistance Federal Funds, it will reflect the correct funding source and will eliminate the over drawing of Foster Care Federal Funds.

Finding Number: 02-60

Finding: Inadequate controls over accounting for the Title IV-E Programs (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060
The MACWIS system reports are being worked on currently by IT staff for accuracy. It is expected that they will complete this work by June 1, 2003, and thereafter the reports will be fully utilized to prevent errors.

BCFS staff overlooked a change in the FFP rate for one Federal Fiscal Year and did not change the FFP rate in MACWIS. The Division of Financial Services staff distributes information about FFP rates to multiple BCFS staff and the MACWIS Director will ensure a wider audience is aware of the rates prior to October 1 each year.

Finding Number: 02-61

Finding: Inadequate controls over program payments (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060
The Automated Title IV-E Enhancement Roll Out in June 2002 and a December 2002 refinement of the funding matrix used by MACWIS for the CW Payroll (Placement

costs) have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 should help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

Adoption Program Staff developed checklists to follow for recording Adoption Assistance applications and approvals on MACWIS. This has helped standardize the recording process statewide.

Finding Number: 02-62

Finding: Internal control deficiencies over the program to track program recipients

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060

- The database referenced is a personal database and not the official MACWIS IT System Database for Adoption Assistance. BCFS will provide to the Auditor all access and training necessary in order to obtain the necessary Adoption Assistance information from the MACWIS IT System.
- October of 2002 adoption caseworkers were presented with a new adoption checklist form, and instructed in the use of that form. This standardized the process of moving cases on to the adoption assistance unit and shortened the amount of time.
- The automated Title IV-E system that was initiated in June of 2002 has substantially improved the proper coding from the correct program funding for system generated program payments. With this system anytime the eligibility status changes the proper funding is attached automatically.
- The program, meaning DHS Bureau of Child and Family Services (BCFS), does not do the Title IV-E determination. The DHS Division of Regional Office of Management and Budget Operations, DROMBO, determines Title IV-E eligibility with this the case files are maintained in their associated work areas. The program has access to these files, but does not maintain them.

  The Quality Assurance of the Title IV-E eligibility has been assigned to a DROMBO Financial Resource Specialist. A periodic review of approximately 500 cases statewide annually will be conducted to ensure the client status codes in the Title IV-E eligibility frames of MACWIS are correct.

Corrective Action Plan

Finding Number: **02-63**

Finding: Inadequate controls to ensure compliance with federal eligibility and match requirements (Prior Year Finding)

Department of Human Services, Bureau of Child and Family Services

Contact: Carol Armour, 287-5060
The MACWIS Automated Title IV-E Enhancement Roll Out in June 2002, and a December 2002 refinement of the funding matrix used by MACWIS for the Child Welfare Payroll (Placement Costs), have substantially improved the proper coding from the correct program funding for system generated program payments.

Training of DROMBO staff prior to the roll out of the Automated Title IV-E Enhancement to MACWIS and a follow-up statewide training in March 2003 will help assure standard compliance statewide with the Title IV-E Eligibility Determinations.

The Quality Assurance of the Title IV-E eligibility is being assigned to a DROMBO Financial Resources Specialist. An annual statewide review of approximately 500 cases will be conducted to ensure that the client status codes in the Title IV-E eligibility frames and the financial screens of MACWIS are displaying the proper eligibility status, and funding account codes.

Also, the BCFS Program Specialist II (MACWIS Director) is now assigned the duty of documenting all MACWIS procedures requiring manual updates, and training necessary for employees to understand resulting interaction between MACWIS screens.

Finding Number: **02-64**

Finding: Documentation to support eligibility not maintained

Department of Human Services, Division of Regional Offices of Management and Budget Operations

Contact: Rebecca Nichols, 822-2218
The Division of Regional OMB Operations (DROMBO) has updated it's Title IV-E policy manual to include a records retention section.

The current policy states:

G. RECORD RETENTION

Once a case is closed, keep the Title IV-E files for 3 years beyond the 18th birthday. This is for both foster care and adoption.

Corrective Action Plan

<u>Finding Number</u>: **02-65**

<u>Finding</u>: Improper transactions

Department of Human Services, Community Services Center, Division of Contracted Community Services

Contact: John Mower, 287-1867
The above incident was a one-time occurrence. The Community Services Center complied with federal regulations on federal drawdowns prior to this incident and has been in compliance since this incident.

The Department of Human Services has implemented internal controls within the Division of Financial Services to prevent the recurrence of this type of activity. Any payment (check) that normally is sent directly from the State Treasurer's office to the vendor, but is instead requested to be "flagged" to go to the employee initiating said payment, must be first justified in writing to the Finance Director or the Deputy Finance Director, and receive written prior approval.

The Department of Human Services is in compliance with state procedures regarding the lapsing of encumbered funds.

State General Funds related to this incident have been returned to the unappropriated fund balance of that fund.

<u>Finding Number</u>: **02-66**

<u>Finding</u>: Inaccurate federal financial reporting

Department of Human Services, Office of Management and Budget, Division of Financial Services

Contact: Patricia V. Shaw, 287-1855
Each report has been corrected to reflect the correct amount of unobligated balance. The FSR report 269 for the period of 10/01/00-09/30/02 now shows a balance of 0. The FSR report for the period of 10/01/01-09/30/03 has been corrected and now reflects a balance of $3,941,351.

A spreadsheet has been developed and will be maintained that will reflect each year's grants, the amount spent and the unobligated balance.

Corrective Action Plan

Finding Number: **02-67**

Finding: Procedures do not ensure compliance with Medicaid Eligibility Quality Control rules and procedures (Prior Year Finding)

Department of Human Services, Bureau of Family Independence

Contact: Barbara VanBurgel, 287-3106

The Bureau of Family Independence (BFI) has contacted the Federal Centers for Medicare and Medicaid Services (CMS) and held a conference call to discuss the statistical formula.

On May 22, 2003 BFI staff are meeting with the Federal statistician to develop the statistical spreadsheet that will calculate the appropriate error rate and the lower limit as required by CMS. BFI has determined the numerical figures that are to be used in the spreadsheet.

By July 1, 2003, BFI will have delivered to CMS all of the error rates and lower limits required for the past years. BFI will continue to be in contact with CMS in order to obtain the appropriate confirmations.

In addition, BFI has already submitted information to CMS regarding a special targeted sampling. BFI will continue to work together with CMS to finalize the details on this sampling.

Finding Number: **02-68**

Finding: Payment made to ineligible recipient; lack of eligibility documentation

Department of Human Services, Bureau of Family Independence

Contact: Barbara VanBurgel, 287-3106
Since this audit, the Bureau of Family Independence has implemented an Automated Client Eligibility System (ACES), which has an electronic interface to the Social Security Administration for the data required to determine eligibility. This interface is expected to be fully functional by the end of June 2003. The entire client case record is integrated between Social Security, Medical Review Team, Eligibility, etc. The electronic data will remain in the electronic system indefinitely.

Finding Number: **02-69**

Finding: Incorrect third party liability data

Corrective Action Plan

Department of Human Services, Bureau of Medical Services

Contact: Sharon Patten, 287-8605/Rossi Rowe, 287-1838
TPL will perform an annual audit on cases where the third party coverage was data entered into the member record with an insurance plan end date in the previous 12 months. The audit will consist of a random sample of 2.5% of the cases noted above. An analysis will be performed to determine if further corrective action is needed, which could include claim submission to the third party, if appropriate. We expect to begin sampling by January 2004.

Finding Number: 02-70

Finding: Lack of controls to ensure accurate payment of case management claims

Department of Human Services, Bureau of Medical Services

Contact: Marianne Ringel, 287-9371
Carol Armour of BCFS is aware of the inappropriate billing of services with individual dates of service that the MMIS cannot determine are duplicates. (For example, procedure code Z9417 is a monthly code and should be billed from first to last day of the month.) BMS Provider Relations Unit staff and targeted case management staff at BCFS have discussed the issue of filing these case management claims. The Social Services Program Specialist II (MACWIS Director) of BCFS will be making system changes to MACWIS by September 2003 prior to the October implementation of BMS' new claims management system MeCMS. The MACWIS system changes will eliminate the possibility of double billing.

The future MaineCare claims management system will perform a review of claims submitted by code, limits file and provider and will prevent this type of inappropriate payment. This system is expected to be operational in October 2003. Since BMS staff are working "double duty" on the new MeCMS system to complete it, it's not possible to address this type of review in the current MMIS claims system. Also, BCFS is currently correcting their billing process to address the errors

Finding Number: 02-71

Finding: Federal funds used for State purposes

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1867
The current budget process does not allow enough flexibility to handle the very unpredictable MaineCare (Medicaid) program costs in a timely manner. The Department is sometimes faced with holding MaineCare obligations at the end of a

quarter due to a lack of allotment, and the process to transfer funds legislatively or through the work program process is not responsive enough at the end of a budget period. Given the high dollar figures and thousands of service providers involved, the pressure on the Division of Financial Services to process MaineCare payments on time is enormous. This leads to difficulties in constantly meeting Generally Accepted Accounting Principles. Without some flexibility, or possible a financial reserve for MaineCare, the Department may have no alternative but not pay some state obligations in the very timely manner now experienced by service providers . One approach would be to grant the Commissioner or State Budget Officer the authority to transfer funds between closely related programs, such as: MaineCare's Medical Care – Payments to Providers and Nursing Facilities Accounts; Child Welfare's Foster Care and Child Welfare Accounts, or TANF's Benefit and ASPIRE Accounts.

In regards to the second recommendation, the Department did not draw down federal cash to cover the transfer of costs from the General Fund Account to the Federal Expenditure Fund because of estimated revenue in the Account, thus the cash pool was debited.

Finally, the Department will notify the State's designated CMIA Coordinator of deviations in drawdowns, should any occur.

Finding Number: 02-72

Finding: Unexplained negative cash balance

Department of Human Services, Division of Financial Services

Contact: Jeffrey Pettengill, 287-1857

The Department of Human Services (DHS) concurs with the Department of Audit's finding. An analysis of the draw downs for the Federal Medicaid funds and the SCHIP Block Grant funds has shown that SCHIP funds were not drawn to cover expenditures made for Prospective Payments made to hospitals that pertained to SCHIP eligible recipients. These expenditures were appropriately reported on the quarterly Federal CMS 64 and CMS 21 reports because when these reports are prepared the Prospective Payments made to hospitals during the quarter are allocated to several programs at that time. However, because the Prospective Payment expenditures are recorded at the regular Federal Financial Participation (FFP) rate when they are paid from Appropriation Org 0147, the money to cover the SCHIP share of these expenditures is drawn down into the Federal 0147 account instead of in the Block Grant 0147 account.

A Journal Voucher is prepared quarterly to charge non-Title XIX expenditures, and those expenditures eligible for different FFP rate, into the correct accounts. When the SCHIP program began and included as part of the hospital prospective payments, the spreadsheets used to prepare the Journal Voucher to transfer these prospective payments were not adjusted to include SCHIP accounts. Since the draw downs of

SCHIP funds is based upon the actual expenditures occurring in the SCHIP accounts, and the expenditures for SCHIP prospective payments were not journaled into the SCHIP accounts, the SCHIP Block Grant funds were never drawn down resulting in $8,512,302 of undrawn SCHIP funds and the overdrawing of $7,378,267 of Federal Medicaid funds.

The Department has prepared a Journal Voucher, JV – 10A – 81JP030045, which will be processed on May 27, 2003 to correct this error. In addition, the spreadsheet used to prepare the quarterly journals for the hospital prospective payments have been revised to include SCHIP and other new programs so that these expenditures will be recorded in the proper accounts and the proper amount of Federal and Block Grant funds drawn in the future.

Finding Number: 02-73

Finding: Estimated grant disbursements reported to the federal government

Department of Human Services, Division of Financial Services

Contact; John D. Mower, 287-1867
The Department of Human Services' Division of Financial Services is often late in its federal fiscal reporting due to a lack of staff, coupled with ever growing federal programs. The PSC 272A Federal Cash Transaction Report must be completed by the due date or the federal Division of Payment Management will cease disbursing cash to the State for the Department's grant awards. Therefore, to get it in on time, this forces DHS to estimate the disbursed amount for the PSC-272 report to get it in on time. Since this is a cumulative report, adjustments are made on the next quarter's report. The State has hired an accounting firm that will look at the staffing issues and recommend the appropriate levels to ensure that timely reporting can be accomplished.

Finding Number: 02-74

Finding: No financial reconciliation; lack of controls to ensure accurate federal financial reporting

Department of Human Services, Division of Financial Services

Contact: Jeffrey Pettengill, 287-1857
The Department of Human Services (DHS) concurs with the Department of Audit's finding that no reconciliation is done between the quarterly Federal financial reports and the State's accounting system. The Department also concurs with the Department of Audit's assessment that the Federal reports for the Medicaid Program are growing more complex as new Medicaid and non-Medicaid programs are established at both the State and Federal levels. New reporting requirements and additional funding sources

increase the time necessary to prepare the report; as modifications to data collection methods, methods of analyses, and expenditure calculations must evolve and grow.

The increase in the amount of time necessary to prepare Federal Reports and the fact that DHS' Division of Financial Services is understaffed combine to make the reconciliations between certified Federal expenditure reports and the State's accounting system nearly impossible. Existing staff currently is unable to submit quarterly reports in a timely fashion without performing such a reconciliation, and with monitoring the current number of accounts that make up the Medicaid program. Adding conducting a reconciliation of Federal reports with the State's accounting system, as well as having to monitor the daily financial activity of an increased number of accounts will more than likely negatively impact the ability of the existing Financial Services Division staff to submit Federal reports in a timely fashion.

This entire issue is being shared with the Department of Administrative and Financial Services and the PricewaterhouseCoopers staff reviewing the critical financial and staffing issues raised by the Audit Department in this and other findings this year.

Finding Number: 02-75

Finding: Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1857
1a. A large staff turnover rate, mostly due to retirements within the Division in recent years, and a lack of written procedures have contributed to inaccurate reporting. Specifically, certain costs have been picked up as a direct cost and also as an allocated cost due to new personnel being unfamiliar with the sources for the cost allocation schedules. A procedures manual is being developed and is an on-going process. The Department of Audit, through its thorough auditing of federal programs, has identified this double counting and the Department has corrected it. More internal controls are needed, but without additional personnel this could be difficult. The current Administration has hired an accounting firm to evaluate the Department's fiscal operation and the issue of adequate personnel will be addressed. The State as a whole is also increasing its resources for internal controls.

1b. The response to recommendation #1 is applicable to this recommendation. Turnover in personnel also has affected the Cost Allocation Plan, a lack of written procedures and new employees' unfamiliarity with the sources of allocation factors.

The Department has contracted with an outside contractor, who is thoroughly revising the Cost Allocation Plan (CAP). The CAP revision is expected to be complete by June 30, 2004.The contracted personnel will be working with agency personnel in order that they can become familiar with the new plan. The Title IV-E section of the plan has

been revised and factors have been updated. An amendment has been sent to the Division of Cost Allocation at the federal Department of Health and Human Services and we are awaiting word on its approval.

Finding Number: 02-76

Finding: Cash management and accounting records inadequate (Prior Year Finding)

Department of Human Services, Division of Financial Services

Contact: John D. Mower, 287-1857
For the Department of Human Services' Division of Financial Services to follow the recommendations of this finding, it will require a significant increase in personnel to monitor the flow of cash of each program and be responsible for the increase in separate accounts as recommended. It can be difficult, once funds are drawn down in good faith, to guarantee the amount of time between the draw and the pay date is minimize due to circumstances out side our control. But, with a new CMIA Agreement beginning July 1st 2003 The Division Director will go over the new draw down methodologies with staff as usual, and this particular finding, to find out what issues led to early or late draws as documented**.** The Division of Financial Services has reduced the number of draw downs not in compliance with the CMIA agreement significantly over the past few years to the point that the agency has almost alleviated them. One other reason for non-compliant draw downs has been to process large Information Technology (IT) invoices when there isn't enough cash in the MFASIS system, and the next scheduled draw down will not be large enough to cover the expense. The Department is working with the State Treasurer's Office to revise the CMIA agreement for fiscal year 2004 to segregate IT costs from other administrative costs, and use the pre-issuance draw down methodology. This will be in the agreement for 2004. When there is a draw down exception, it is reported annually to the CMIA Coordinator at the State Treasurer's Office.

Finding Number: 02-77

Finding: Lack of segregation of duties; inadequate oversight (Prior Year Finding)

Department of Human Services, Bureau of Rehabilitation Services

Contact: William Whitley, 624-5967
The Bureau of Rehabilitation Services is in the process of establishing procedures to ensure segregation of program duties, involving approval of expenditures and computer controls to limit the ability of system user to initiate, authorize and approve the payment process. The Department of Labor Office of Information Processing has begun work on the rewrite of the Rehabilitation System (ORSIS). Work on Phase I that includes systems analysis, data modeling, prototyping, requirements analysis and

conceptual design has begun. The rewrite will improve the system to provide a fully accessible, intuitive, well-documented system that minimizes replications. It is anticipated that the new system will be fully operational by the end of the SFY 2004.

Finding Number: 02-78

Finding: Insufficient controls over set-aside expenditures

Department of Labor, Bureau of Employment Services

Contact: Andrew Drouin, 287-6493
As outlined in the Bureau of Employment Services' approved State Plan, the 10% Wagner-Peyser set-aside funds are designated to provide services in rural communities to reduce the geographical gaps between offices. We are now utilizing the State TAMS system to control staff time charges which will only allow staff to charge to funding codes with prior approval. We feel that this new system will provide the controls we need to insure that all expenditures are in line with the approved plan.

Finding Number: 02-79

Finding: Funds drawn on the federal Unemployment Compensation Trust Fund were not in compliance with cash management requirements

Department of Labor, Office of Administrative Services

Contact: Rose M. Bailey, 287-1276
The Maine Department of Labor, Office of Administrative Services reviewed the draw down pattern used, and identified and reported to the auditor that we were not including child support deductions, federal/state withholding tax deductions, or offsets in our daily figures and that the federal Accounts had not been drawn down using the estimated clearance pattern.

As stated above in the audit finding, subsequent to the date of the audit, we implemented the following changes:

1. The method used to determine the department's cash needs (estimated clearance pattern spreadsheet) was changed.
2. All draw downs are made based on the use of the estimated clearance pattern
3. Estimated revenue (per approval of the Controller's office) is used in order that transactions may be recorded on MFASIS before drawing cash.

These changes should eliminate this finding in subsequent audits.

Corrective Action Plan

<u>Finding Number</u>: 02-80

<u>Finding</u>: Untimely account reconciliation of accounting systems; inaccurate federal financial reports

Department of Labor, Office of Administrative Services

Contact: Rose M. Bailey, 287-1276
The Office of Administrative Services upon recognition of the error, immediately concentrated efforts in this area, reconciled all prior years for the TRA grant and has submitted final reports for closed grants. All subsequent periods have been or are reconciled on a monthly basis to the State MFASIS system, the Trust Funds general ledger and the internal cost accounting system.

<u>Finding Number</u>: 02-81

<u>Finding</u>: Lack of adequate computer controls

Department of Labor, Bureau of Employment Services

Contact: Arthur Henry, Office of Information Processing, 287-9133
The State of Maine Information Services Policy Board (ISPB) adopted a new Information Technology Security Policy on December 19, 2002. Among other enhancements, that policy also addresses, in a detailed manner, corrective measures for the weaknesses spelled out in the finding "Lack of adequate computer controls." The Department of Labor has committed to embrace and support this new State of Maine Security Policy. Our plans are to adhere to each of the nine security areas which include technology security, organizational security, asset classification and control, personnel security, physical and environmental security, communications and operations management, access control, systems development and maintenance controls, and disaster recovery and business continuity guidelines. We will also periodically review our compliance with these policies and guidelines.

1. The Department plans on naming a security officer who will have the authority and responsibility to develop the computer security project plan and carry out that plan. The intent of the project plan will be to be in full compliance with the Maine IT Security Policy and follow the security guidelines by July of 2004. The project plan will have deliverables for each of the security areas on a scheduled basis between July of 2003 and July of 2004. Following is a list of the weaknesses spelled out in the finding and references to where the new security policy addresses those weaknesses.

1. Information technology personnel are able to make changes to master files, production programs and live data files. Adequate controls are not in place to ensure that changes of this type are authorized and appropriate.

- This item is addressed in sections 8,9 and 10 of the security policy.

2. Access is not limited to the personnel who require it for their job function.
- This item is addressed in sections 5,7,and 9 of the security policy.

3. Passwords are used to limit access to the program. However, procedures are not in place to ensure that passwords are confidential and unique, changed at regular intervals, and canceled upon termination of the employee.
- This item is addressed in sections 8 and 9 of the security policy.
-

4. Procedures are not in place to ensure that unauthorized changes to the program are not made.

This item is addressed in sections 8,9,and 10 of the security policy.

5. Procedures are not in place to prohibit test versions of programs from being run on production data and controls are not in place for when it is determined that these types of tests need to be run.
- This item is addressed in sections 8 and 10 of the security policy.

6. Procedures do not exist that would allow information technology personnel to determine if the data is properly authorized in instances where they were required to initiate the input of data.
- This item is addressed in sections 6, 8 and 10 of the security policy.

7. There is not a vendor call back provision in the procedures for a vendor attempting to initiate a request to gain remote access to the computer system.
- This item is addressed in sections 4,8 and 9 of the security policy.

8. Disaster contingency plans have not been tested.
- This item is addressed in 8 and 11 of the security policy and our new Enterprise Computing strategy that we will be beginning to install in 2003-2004.

At the present time, we plan to address the mentioned weaknesses in the manner described above. If the audit authorities want us to prioritize any specific items or want reports on our progress to meet the stated goals please let us know and we will work to accommodate those requests.

Finding Number: 02-82

Finding: Lack of adequate subrecipient monitoring

Department of Labor, Bureau of Employment Services

Contact: Andrew Drouin, 624-6493

The BES is in the process of developing a Program and Financial Monitoring Manual, which contains monitoring procedures, policies, reporting formats, and the on-site

monitoring tools for WIA, TAA, Wagner-Peyser, and Migrant and Seasonal Farmworkers programs. The schedule for implementation is below:

- The manual with the policy and procedures will be ready in draft form by May 21st.
- By May 23rd, the draft manual will be circulated in house for comment and a meeting held, if necessary.
- By May 30th the monitoring manual (program and fiscal) will be sent to Local Boards.
- The manual will be completed and approved for implementation by June 13th.

The manual contains the monitoring schedule and describes the teams that will conduct the on-site monitoring. One Local Area per quarter will be monitored. This includes the Local Area Central office and selected individual CareerCenters within that jurisdiction. Monitoring of all four Local Areas will be completed by June 30, 2004.

Finding Number: 02-83

Finding: Controls did not prevent excess federal cash on hand (Prior Year Finding)

Department of Labor, Bureau of Rehabilitation Services

Contact: William Whitley, 624-5967
There was a misunderstanding in the interpretation of Cash Management Improvement Act and the Common Rule. With the clarification of these rules, the Bureau of Rehabilitation Services will make every effort to order cash per the stated methods prescribed in the CMIA agreement and will disburse any program income prior to requesting additional cash payments.

Finding Number: 02-84

Finding: Incorrect financial reporting

Department of Labor, Bureau of Rehabilitation Services

Contact: William Whitley, 624-5967
Procedures have been put in place to ensure that all program income be correctly reported as disbursed and undisbursed.

Finding Number: 02-85

Finding: Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)

Department of Labor, Office of Administrative Services

Corrective Action Plan

Contact: Rose M. Bailey, 287-1276
The Maine Department of Labor Office of Administrative Services has established estimated revenue for State Fiscal Year 2003, which subsequently removed the previous barriers to compliance with the CMIA agreement. Pre-issuance funding has been replaced with the Average Clearance Pattern in CMIA agreements. Payroll is now drawn down on Wednesday, the payroll paid date, to be received in the bank on Thursday (average day of clearance). With the TAMS (Time and Attendance Management System) warehouse available to us, our goal is to use this information, feed it into our internal accounting system and send the information back to MFASIS in the report orgs that reflect the funding sources. This should improve the tracking of grants in future audits.

Non-personal services are coded using a crosswalk that reflects the appropriate State accounting system report org for each funding source. Drawdowns for these expenses are reviewed using queries from the State's Financial Management System (Financial Warehouse) and the in-house cost accounting reports.

Finding Number: 02-86

Finding: Accounting systems not reconciled (Prior Year Finding)

Department of Labor, Office of Administrative Services

Contact: Rose M. Bailey, 287-1276
Staffing shortages and turnover have been a challenge with respect to the corrective actions previously planned. We have recently created a Process Flow Chart, rewritten the reconciliation process, and designed other reconciliation tools with ease of use as one of the primary factors. This along with stability in staffing will allow for significant improvement in our ability to manage corrections, journal entry adjustments and identify reoccurring errors. In an effort to accelerate the progress in reconciling accounts, the Department is currently contracting with temporary services for accounting personnel skilled in the reconciliation area. Also, during the course of this fiscal year, we will review the feasibility of the recommendations of the State Audit Department with regard to reconciling the State system MFASIS, with the Department of Labor internal cost accounting system DOLARS on a federal program level.

Finding Number: 02-87

Finding: Program drawdowns are not consistent with program expenditures

Department of Labor, Office of Administrative Services

Contact: Rose M. Bailey, 287-1276

Corrective Action Plan

The Office of Administrative Services took steps during State Fiscal Year 2003 (July 1, 2002 through June 30, 2003) to discontinue pre-issuance funding on all of our Federal Grants. We currently use the Average Clearance Pattern for non-personal services and prorated draw downs for Payroll. This will eliminate or diminish the possibility of excess cash on hand in the future. The Office of Administrative Services has worked diligently to develop the tools necessary, increase staff training, and create changes in our State Account Code Structure that would allow for better overall cash management.

Finding Number: 02-88

Finding: Federal grant program activity and status information not timely

Department of Labor, Office of Administrative Services

Contact: Rose M. Bailey, 287-1276
The Maine Department of Labor Office of Administrative Services and the Office of Information Processing are currently engaging in conversations with regard to a redesign of our current system. This is necessary to give our program managers sufficient information to make well-informed decisions concerning their programs in these times of funding shortfalls. As stated in the audit finding above, we cannot rely on the Maine Financial and Administrative Statewide Information System (MFASIS), as it currently does not provide detailed accounting at the federal program level for MDOL managed programs that can be viewed on a daily basis for management purposes.

Finding Number: 02-89

Finding: Inadequate oversight of Locally Administered Projects (Prior Year Finding)

Department of Transportation, Bureau of Project Development

Contact: Bruce Carter, 624-3430
We concur with the finding. In the past year, the recently established position of Departmental Local Administered Projects (LAP) Coordinator has published an LAP manual and provided training in MDOT and FHWA procedures to over 200 consultants and municipalities. Part of the procedures for an LAP project require the use of the MDOT standard construction specs, something that was not done in the past. This will ensure technical consistency with MDOT work and incorporate federal provisions.

The corrective action plan will be in place by June 30, 2003.

Corrective Action Plan

Finding Number: 02-90

Finding: Internal controls regarding Davis-Bacon Act not followed (Prior Year Finding)

Department of Transportation, Bureau of Project Development

Contact: Bruce Carter, 624-3430
We concur with the finding. A Wage Rate Compliance Officer was designated for the Department approximately a year ago. This is a collateral duty. Steps have been taken for the employee to be trained, manuals have been provided and she will take a more active role this construction season in verifying Davis-Bacon compliance.

The corrective action plan will be in place for the construction season of 2003.

Finding Number: 02-91

Finding: Inadequate controls over suspension and debarment requirements for consultant contracts (Prior Year Finding)

Department of Transportation, Bureau of Project Development

Contact: Bruce Carter, 624-3430

We concur with the finding. The Department has established Consultant General Conditions to govern all of its consultant contracts that became effective on July 1, 2002. Appendix A to said Consultant General Conditions consists of the contracting requirements for Federally-funded contracts, which includes a certification regarding suspension and debarment. By signing a contract governed by these General Conditions, a consultant is certifying that they are not suspended or debarred. Additionally, approximately a year ago, the Department added suspension and debarment declarations to the Consultant Registration Form. We will continue to receive such declarations from the consultant community as a requirement for entering into a contract with the Department. Additionally, the Contracts Section will attempt to provide oversight for consultant processes to other units within the Department, which have lacked such internal guidance in the past. Additionally, the Department is about to issue an updated consultant procedures manual which outlines the regulations, laws, procedures, templates and sources of information for the acquisition and administration of consultant contracts.

The corrective action plan will be completed by June 30, 2003.

Finding Number: 02-92

Finding: Non-compliance with Cash Management Improvement Act (Prior Year Finding)

Corrective Action Plan

Office of the Treasurer of State

Contact: Holly Maffei, 624-7477
In late November of 2002 the Treasurer's Office was able to acquire a position to serve as CMIA Coordinator. Through meetings with State Agencies, contacts with the Financial Management Service Division of the US Treasury, discussions with Accounts and Control and Audit, a more thorough understanding of the issues involved in drawing down federal funds, and the corresponding CMIA implications, has been continuously underway.

For both major and non-major federal programs, several controls have been implemented. One of the first accomplishments made in late 2002 was the cooperative development by Treasury and Accounts and Control of a monthly schedule now used to review the MFASIS cash balances of federal programs. This schedule indicates the timeliness of federal funds received against disbursements. Federal programs that have cash balances out of proportion with their average draw amounts are contacted. More insight is also gained from regular queries of the financial warehouse. This helps the Treasurer's Office verify and further understand the receipt and disbursement of federal funds.

In addition, a quarterly schedule of random federal draw sampling has been established specifically for the federal grants included in the TSA. Source documentation is requested to determine if funding techniques are in compliance with the CMIA agreement, and also to ensure that these funding techniques are appropriate for the respective programs. A Federal Drawdown Detail Form data sheet has been formatted and implemented, and is used to document the intricacies of the drawdown techniques and program requirements. This information will be used throughout the year, and again at year-end as the foundation for the annual preparation of the Treasury State Agreement.

During this annual preparation, the Dept. of Audit has made a special effort to supply the Treasurer's office with a copy of a final draft of the SEFA. The SEFA is used to determine which programs will be a part of the TSA for the next fiscal year. The Treasurer's office had been previously using the most recent SEFA available, which oftentimes was not finalized. Some last minute changes in the SEFA therefore could not be incorporated into the TSA. Treasury has also implemented a new control when determining which programs will be included in the TSA. The SEFA is reformatted to capture all CFDA lines, at which point the aggregate total is applied to the CMIA threshold.

Overall, we are optimistic with the positive responses received from State Agencies and their willingness to work with this Office toward CMIA compliance. With the resources of a position dedicated to CMIA, it has been a joint educational venture resulting in early signs of improvement.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
99-20	93.778	Bureau of Family Independence/ Regional OMB Operations	Documentation to support participant eligibility not located	$26,160	Federal audit resolution occurred in FY02. Questioned costs were not upheld by the Federal government.
99-23	93.268	Bureau of Health	Unallowable expenditure	$363,364	Federal audit resolution occurred in FY02. Questioned costs were upheld by the Federal government.
99-24	93.778	Bureau of Medical Services	Provider information not obtained or maintained	none	Finding was repeated in FY02.
99-29	14.238	Bureau of Mental Health	Inadequate subrecipient monitoring	none	Corrective action taken in FY02.
99-36	20.205	Bureau of Project Development	Inadequate controls over Locally Administered Projects	$52,777	No further action warranted per OMB Circular A-133 315.b4.
00-02	N/A	DAFS	Inadequate internal control over lease transactions identification, classification and reporting (Prior Year Finding)	None	Corrective action taken in FY02.
00-05	N/A	DECD, OCD	Loans receivable balances not recorded on the State's financial statements	None	Finding was repeated in FY02.
00-07	N/A	DHS, BMS, DFS	Duplicative and incorrect accounts receivable subsidiary records	None	Finding was repeated in FY02.
00-18	16.586	DOC	Inadequate controls over cash management	None	The Department did not order cash until the expenses were imminent in FY02. The department will continue to attempt to process transactions in accordance with CMIA, including spending refunds prior to requesting additional cash.
00-21	12.401	DDVEM, Military Bureau	Controls insufficient to ensure compliance with cash management requirements (Prior Year Finding)	None	Finding was repeated in FY02.
00-22	12.401	DDVEM, Military Bureau	Procedures do not ensure compliance with suspension and debarment requirements.	None	Finding was repeated in FY02.
00-28	84.027 84.048	DOE, Bureau of Finance Support Systems Team	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Finding was repeated in FY02.
00-30	84.027	DOE, Learning Systems Team	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Finding was repeated in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
00-31	10.553 10.555 10.556 10.559	DOE, Div of School Support Syst - Food Svcs	Controls did not ensure compliance with federal cash management requirements	None	Finding was repeated in FY02.
00-32	93.575 93.596	DHS, BCFS	No procedures to ensure compliance with monitoring requirements (Prior Year Finding)	None	Finding was repeated in FY02.
00-33	93.575 93.596	DHS, BCFS	No controls to ensure compliance with payroll requirements (Prior Year Finding)	$85,783	Finding was repeated in FY02.
00-34	93.667	DHS, BCFS	Funds not spent in accordance with earmarking requirements (Prior Year Finding)	$24,455	Corrective action taken in FY02.
00-36	93.778	DHS, BFI	Procedures do not ensure compliance with Medicaid Eligibility Quality Control (MEQC) rules and procedures (Prior Year Finding)	None	Finding was repeated in FY02.
00-37	10.557	DHS, Bureau of Health	Controls over payroll records not effective to ensure compliance (Prior Year Finding)	50,855	Corrective action taken in FY02.
00-38	93.268	DHS, Bureau of Health	Procedures insufficient to ensure accurate information for inclusion in the SEFA (Prior Year Finding)	None	Corrective action taken in FY02.
00-39	93.268	DHS, Bureau of Health	Controls insufficient to ensure compliance with certification and personnel activity requirements	None	Finding was repeated in FY02.
00-40	Various	DHS, Bureau of Health	Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)	None	Finding was repeated in FY02.
00-42	10.551 10.561	DHS, Bureau of Health, Bureau of Adult & Elder Services, Div of Fin Svcs	Lack of controls to ensure accurate federal financial reporting	None	The Department revised the SF-269 to reflect costs. The agency prints off the electronic version of the FSR to compare to the work copy and to have signed by an authorizing official to keep on file. Finding was repeated in FY02.
00-44	93.767	DHS, Div of Fin Svcs	Controls insufficient to ensure compliance with cash management requirements	None	Corrective action taken in FY02.
00-46	Various	DHS, Div of Fin Svcs	Controls inadequate to ensure accurate financial reporting: costs charged twice, cost allocation plan errors not detected	$963,687	Finding was repeated in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
00-48	Various	DHS, Div of Fin Svcs	Controls do not ensure compliance with cash management requirements (Prior Year Finding)	None	Finding was repeated in FY02.
00-49	Various	DHS, Div of Fin Svcs	Procedures do not ensure accurate reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)	None	Finding was repeated in FY02.
00-51	17.225 17.207	MDOL, Office of Admin Svcs	Procedures do not ensure compliance with the Cash Management Improvement Act	None	The current State accounting system requires that cash funds be received and available prior to making disbursements unless provided an exception by the State Treasurer's Office and the Bureau of Accounts and Control. The MDOL OAS will request assistance from State Controller's Office with regard to establishing an accrual journal in order to permit check issuance prior to receipt of federal funds. With the further assistance of the Maine State Treasury, MDOL OAS would then discuss the use of the average clearance pattern or other alternative methods and amend the existing CMIA agreement accordingly. To date the department has not instituted the above procedure.
00-52	Various	MDOL, Office of Admin Svcs	Accounting systems not reconciled (Prior Year Finding)	None	Finding was repeated in FY02.
00-54	16.579	DPS, Bureau of Highway Safety	Inadequate documentation of compliance with earmarking requirements	None	Grants manger, David Giampetruzzi, is responsible for documenting earmarking requirements.
00-55	16.579	DPS, Bureau of Highway Safety	Procedures inadequate to ensure compliance with payroll requirements (Prior Year Finding)	$34,421	Corrective action was taken in FY02. DPS transferred $13,602.50 of the $34,421 questioned costs to the appropriate programs. Office of Justice Programs is not pursuing remaining QC.
00-56	16.579	DPS, Bureau of Highway Safety	Procedures inadequate to ensure compliance with pass-through requirements (Prior Year Finding)	None	David Giampetruzzi will ensure pass-through requirement compliance.
00-57	16.579	DPS, Bureau of Highway Safety	Procedures do not ensure compliance with cash management requirements (Prior Year Finding)	None	DPS believes that cash is currently maintained in accordance with cash management requirements for fiscal year 2002.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
00-63	Various	Office of the Treasurer of State	Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)	None	Finding was repeated in FY02. Corrective action started in FY02.
01-01	N/A	DAFS - Bureau of Accounts and Control	Inadequate controls to ensure complete and accurate recording of general fixed assets	None	Finding was repeated in FY02.
01-02	N/A	DAFS - Bureau of Accounts and Control, Division of Financial & Personnel Services, Bureau of General Services	Inadequate internal control over identification, classification and reporting of lease transactions (Prior Year Finding)	None	Corrective action taken in FY02.
01-03	N/A	DOT - Bureau of Freight Transportation	Assets not recorded on State records	None	Corrective action taken in FY02.
01-04	93.563	Attorney General	Excess federal program funds to pass-through agency	$673,369	Corrective action taken in FY02.
01-05	93.959	BDS - Office of Substance Abuse	Obligation and spending of grant award beyond allowable period	$43,580	Federal audit resolution in FY02.
01-06	10.664	Conservation - Maine Forest Service	Payroll expense not allocated	$29,784	Corrective action taken in FY02.
01-07	12.401	Defense, Veterans and Emergency Management - Military Bureau	Inadequate internal control over cash management (Prior Year Finding)	None	Finding was repeated in FY02.
01-08	12.401	Defense, Veterans and Emergency Management - Military Bureau	Lack of controls to ensure matching requirements are met	None	Corrective action taken in FY02.
01-09	12.999	Defense, Veterans and Emergency Management - Military Bureau	Inadequate internal control over cash management at the Loring Rebuild Facility, and non-compliance with cash management requirements	None	Finding was repeated in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
01-10	Various	Education - Bureau of Finance	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Finding was repeated in FY02.
01-11	84.027 84.048	Education - Learning Systems Team	Insufficient controls over compliance with suspension and debarment requirements (Prior Year Finding)	None	Corrective action taken in FY02.
01-12	Various	Education - Support Systems Team	Pass-through entity responsibilities not met (Prior Year Finding)	None	Corrective action taken in FY02.
01-13	Various	Education - Support Systems Team	Inadequate internal controls and compliance over monitoring of subrecipient cash balances (Prior Year Finding)	None	Finding was repeated in FY02.
01-14	84.027	Education - Support Systems Team	Controls over earmarking requirements not sufficient to ensure compliance	$165,080	Corrective action taken in FY02. QC resolution is ongoing with feds.
01-15	84.027	Education - Support Systems Team	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Finding was repeated in FY02.
01-16	66.605	ACE	Inadequate internal controls and compliance over cash management	None	Finding was repeated in FY02.
01-17	66.605	DEP - Bureau of Air Quality, Bureau of Land and Water Quality, Bureau of Remediation and Waste Management	Controls ineffective to ensure compliance with payroll certification requirement	None	Finding was repeated in FY02.
01-18	66.605	DEP - Bureau of Land and Water Quality	Inadequate controls over subrecipient monitoring responsibilities	None	Finding was repeated in FY02.
01-19	66.605	DEP - Bureau of Land and Water Quality	No controls over suspension and debarment requirements	None	Finding was repeated in FY02.
01-20	66.605	DEP - Bureau of Land and Water Quality	No controls over inclusion of federal procurement requirements in subrecipient contracts	None	Finding was repeated in FY02.
01-21	93.558	DHS - Bureau of Child and Family Services	Inaccurate federal financial reporting (Prior Year Finding)	$149,082	Finding was repeated in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
01-22	93.575 93.596	DHS - Bureau of Child and Family Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Finding was repeated in FY02.
01-23	93.575 93.596	DHS - Bureau of Child and Family Services	Unallowable payroll costs (Prior Year Finding)	$82,730	Finding was repeated in FY02.
01-24	93.658	DHS - Bureau of Child and Family Services	Costs claimed more than once	$65,203	Finding was repeated in FY02.
01-25	93.658	DHS - Bureau of Child and Family Services	Foster Care payment system not reconciled to State's accounting system	None	Finding was repeated in FY02.
01-26	93.658	DHS - Bureau of Child and Family Services	Ineligible participants	$1,026	Finding was repeated in FY02.
01-27	93.658	DHS - Bureau of Child and Family Services	Inadequate suspension and debarment procedures	None	Finding was repeated in FY02.
01-28	93.658	DHS - Bureau of Child and Family Services	Payments made to ineligible recipients and at incorrect rates (Prior Year Finding)	$37,179	Finding was repeated in FY02.
01-29	93.658	DHS - Bureau of Child and Family Services	Unrelated expenditures reported	$157,825	Corrective action taken in FY02.
01-30	93.658 93.659	DHS - Bureau of Child and Family Services	Payments made to ineligible recipients and at incorrect rates	$1,792 $43,727	Finding was repeated in FY02.
01-31	93.659	DHS - Bureau of Child and Family Services	Accuracy of information maintained by the Maine Automated Child and Welfare Information System (MACWIS)	None	Finding was repeated in FY02.
01-32	93.658 93.659	DHS - Bureau of Child and Family Services	Inadequate controls over accounting and reporting for the Title IV-E Programs	$2,846,146 $46,445	Finding was repeated in FY02.
01-33	93.667	DHS - Bureau of Child and Family Services	Lack of supporting documentation for portion of TANF Block Grant transfer, and duplication of expenses claimed for reimbursement (Prior Year Finding)	$126,995	Corrective action taken in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

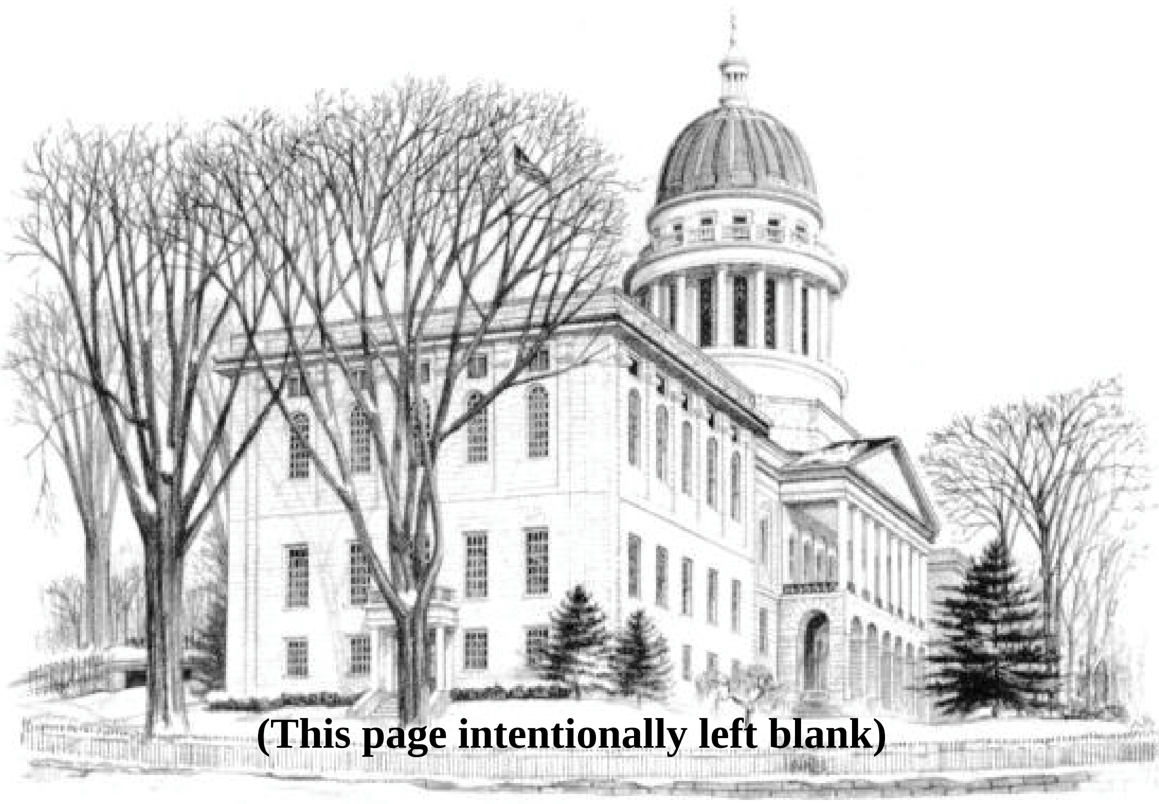
Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
01-34	10.561	DHS - Bureau of Family Independence	No controls in place to ensure payroll costs are properly charged to the federal program; excess payroll costs charged to the Food Stamps program	$164,026	Finding was repeated in FY02.
01-35	93.563	DHS - Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services	Costs reported in excess of allowed federal share	$10,614	Corrective action taken in FY02.
01-36	93.563	DHS - Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services	Inadequate controls and procedures to ensure complete and accurate reporting for the Schedule of Expenditures of Federal Awards	None	Corrective action taken in FY02.
01-37	93.563	DHS - Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services	Inadequate controls and procedure to ensure that only program-related payroll costs are charged to the program	$73,448	Finding was repeated in FY02.
01-38	93.563	DHS - Bureau of Family Independence, Division of Support Enforcement and Recovery, Division of Financial Services	Inadequate controls over accounting for cash and revenue, errors in supporting schedules, and State accounting system and internal computer system not reconciled	None	Finding was repeated in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
01-39	93.563	DHS - Division of Children and Families, Division of Financial Services	Excess federal program funds to pass-through agency	$673,369	Finding was repeated in FY02.
01-40	10.557	DHS, Bureau of Health	Noncompliance with cash management requirements	None	Corrective action taken in FY02.
01-41	10.557	DHS, Bureau of Health	Schedule of Expenditures of Federal Awards not accurate	None	Corrective action taken in FY02.
01-42	10.557	DHS - Bureau of Health	Internal controls over cash transfers inadequate	None	Corrective action taken in FY02.
01-43	93.268	DHS - Bureau of Health	Procedures insufficient to ensure accurate information for inclusion in the Schedule of Expenditures of Federal Awards (Prior Year Finding)	None	Corrective action taken in FY02.
01-44	93.268	DHS - Bureau of Health	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Finding was repeated in FY02.
01-45	93.959	DHS - Office of Substance Abuse	Noncompliance with cash management requirements (Prior Year Finding)	None	Finding was repeated in FY02.
01-46	93.268	DHS - Division of Financial Services	Financial report inaccurate	None	Corrective action taken in FY02.
01-47	Various	DHS - Division of Financial Services	Procedures do not ensure compliance with the Cash Management Improvement Act (prior Year Finding)	None	Finding was repeated in FY02.
01-48	Various	DHS - Division of Financial Services	Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)	$1,290,881	Finding was repeated in FY02.
01-49	Various	DHS - Community Services Center, Division of Audit	Pass-through responsibilities not met: untimely receipt of corrective action plans and untimely issuance of management decisions (Prior Year Finding)	None	Corrective action taken in FY02.
01-50	84.126	DOL - Bureau of Rehabilitation Services	Lack of segregation of duties, inadequate oversight	None	Finding was repeated in FY02.
01-51	84.126	DOL - Bureau of Rehabilitation Services	Individualized Plan for Employment requirements not met	None	Corrective action taken in FY02.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2002

Finding #	CFDA #	Department	Description	Questioned Costs	Updated Status May 2003
01-52	84.126	DOL - Bureau of Rehabilitation Services	Excess federal cash on hand, and program income not properly accounted for	None	Finding was repeated in FY02.
01-53	17.207 17.801 17.804 17.225	DOL - Office of Administrative Services	Compliance with Cash Management Improvement Act not ensured (Prior Year Finding)	None	Finding was repeated in FY02.
01-54	Various	DOL - Office of Administrative Services	Accounting systems not reconciled (Prior Year Finding)	None	Finding was repeated in FY02.
01-55	Various	DOL - Office of Administrative Services	Inadequate suspension and debarment procedures	None	Corrective action taken in FY02.
01-56	64.203	DPS - Bureau of Administrative Services	Schedule of Expenditures of Federal Awards incorrect (Prior Year Finding)	None	Corrective action taken in FY02.
01-57	20.205	DOT - Project Development	Inadequate oversight of Locally Administered Projects (Prior Year Finding)	$13,119	Finding was repeated in FY02.
01-58	20.205	DOT - Project Development	Internal Controls regarding Davis Beacon Act not followed	None	Finding was repeated in FY02.
01-59	Various	Office of the Treasurer of State	Internal controls not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)	None	Finding was repeated in FY02. Corrective action was begun in late FY02.



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